

DISCUSSION PAPER

CANADA-U.S. TRADE NEGOTIATIONS:
IMPLICATIONS FOR ONTARIO'S AGRICULTURE,
FOOD AND BEVERAGE SECTOR



Ontario Ministry of Agriculture and Food

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ONTARIO MINISTRY OF AGRICULTURE AND FOOD

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EXECUTIVE SUMMARY

Canada and the United States are engaged in negotiations to achieve a broad package of mutually beneficial trade barrier reductions. In the view of federal governments of Canada and the U.S., the agriculture, food and beverage sectors of both countries will be included in the negotiations. A bilateral agreement, subject to ratification by both governments, is expected to be completed by the fall of 1987.

The purpose of this paper is to act as a focus for informed discussion about the bilateral trade negotiations with the farm and agribusiness communities, the general public and within the Ontario government. The objective of this paper is to examine the potential impact of the bilateral trade negotiations concerning agriculture, food and beverage products within the context of federal and provincial trade objectives, farm and processing group views, government policy commitments, and the structure and performance of the sector.

The treatment of the agriculture, food and beverage sector in the bilateral trade negotiations presents some unique and complex problems. From Ontario's perspective, this sector represents a special case, in view of its importance and distinct characteristics. Furthermore, a broad range of products are extremely sensitive to liberalized trade. With the exception of the red meat sector, there seems to be no strong support for the negotiations from either producers or processors. This reflects the reality of the competitive position of Ontario's agriculture, food and beverage sector.

In general, higher costs and lower labour productivity (created by smaller production/processing units, government policies, and institutional factors) have placed Ontario at a competitive disadvantage, in comparison to U.S. producers, in a number of agriculture, food, and beverage products. The gains for Ontario are limited, while the potential adjustment costs associated with farm and plant closures for certain industries - particularly, the dairy, poultry, egg, fruit and vegetable, wineries and breweries, and some other processing industries - could be significant. It would appear that Ontario consumers could capture most of the benefits of free trade in the agriculture, food and beverage sector in terms of anticipated lower retail food prices. Further uncertainty over the potential benefits and costs is created by potential exchange rate fluctuations and investment decisions by domestic and multinational firms.

The potential adverse impacts of free trade on selected commodity producers and processors suggest that a cautious and careful approach to trade negotiations needs to be taken. However, the fact that the trade negotiations offer selected opportunities, both in terms of securing and enhancing exports, provides justification for the Ministry to participate in the development of Ontario's trade negotiating position. The Ministry will continue to consult with the entire industry and research the implications of reductions in trade barriers.



I. INTRODUCTION

The Government of Canada is committed to negotiating a bilateral trade agreement with the United States. Negotiations started between Ambassador Reisman of the Trade Negotiations Office (TNO) and Ambassador Murphy of the Office of the United States Trade Representative (USTR) in May, 1986. A negotiated agreement, subject to ratification by both countries, is expected to be completed by the fall of 1987.

In pursuing a bilateral trade agreement, both Canada and the United States have agreed to achieve the largest and broadest possible package of mutually beneficial trade barrier reductions. This involves negotiations to reduce and/or eliminate the tariff and non-tariff barriers (e.g., quotas, health and disease regulations, product standards, and government procurement) to the bilateral movement of goods, including agriculture and food products. The Government of Canada has also stressed the need for a fairer and more predictable trade relationship with the U.S., through the development of better dispute settlement processes and limiting the trade harassment aspect of U.S. import relief measures.

Currently, over 50 percent of Canada-U.S. trade in agriculture and food products is free of tariff duties. The remainder is at a weighted tariff duty level of about 6 percent. Canada has a higher level of tariff protection for agriculture than the U.S., particularly in the case of horticultural crops and food items. It should also be emphasized that each country has made extensive but not symmetrical use of non-tariff measures (e.g. import quotas and export subsidies) as mechanisms to protect its domestic industry.

A free trade agreement, as a result of Canada-U.S. trade negotiations, has the potential to cause major changes to Ontario's agriculture, food and beverage sector. Ontario's supply-managed dairy, poultry and egg industries, the tariff protected fruit and vegetable industry, grape growers and wineries, and selected processors, would require substantial adjustments to compete directly with U.S.

industries. The scope of the trade initiative has been the cause of confusion and uncertainty, since it is unclear how far down the road to free trade and regulation/assistance harmonization in agriculture, food and beverages the Government of Canada plans to proceed.

In recognition of the joint federal and provincial jurisdiction over the agriculture and food sector and the importance of this sector to the provincial economy, the Government of Ontario is extremely interested in, and concerned about, the Government of Canada's negotiating plans for this sector. There is a clear need for analysis of the potential impact of bilateral free trade. The Ontario Ministry of Agriculture and Food has prepared this paper to address this need. The purpose of this paper is to act as a focus for informed discussion about the trade negotiations with the farm and agribusiness community, the general public, and within the Ontario Government. The Ministry wishes to continue the consultative process to further develop its position with respect to the bilateral trade negotiations so as to provide informed guidance to the public and to policy makers within the Government of Ontario.

The objectives of this paper are:

- To review the Federal Government's bilateral trade initiative, the Ontario approach, and the positions of farm groups and agribusiness associations.
- To assess the competitiveness of component parts of Ontario's agriculture, food and beverage sector in the North American market.
- To examine the potential impacts of trade negotiations on Ontario's agriculture, food and beverage sector.

Emphasis in this paper has been placed on examining the potential implications of the bilateral trade negotiations on the farm and processing industries. Attention has not been focused on the farm input and supply industries as these industries already operate on essentially a North American basis. Trade barriers between Canada and the U.S. in fertilizer, chemicals and machinery are all extremely small. However, it is acknowledged that there are different national standards, such as those that affect the availability of pesticides, herbicides and fungicides, which could be the subject of negotiations.

II. FEDERAL GOVERNMENT INITIATIVE

Bilateral trade negotiations with the United States were initiated by the Government of Canada with the declared objective of securing and enhancing access to the U.S. market, which is seen as vital to the efficient development of the Canadian economy and the continuing prosperity of all Canadians (1). Canada's trade with the U.S. is extremely important to the domestic economy, as it accounts for one-quarter of the gross national product and over 2 million jobs.

In turn, the declared motivation for the U.S. to enter into bilateral negotiations with Canada in terms of prospective benefits of improved access to the Canadian market and as a demonstration to the rest of the world of the scope and benefit of further liberalization of trade.

The pursuit of bilateral negotiations at this time is seen by the Government of Canada as a means of containing U.S. protectionist actions against Canadian goods. Over the last few years, the U.S. has instituted import relief measures (i.e., quotas, anti-dumping and countervailing duties, surcharges) against imports from Canada of steel, salt, lumber, sugar products, fish, hogs, raspberries and cut flowers.

It is also maintained that Canadian industry requires unimpeded access to the U.S. market of 236 million people to be competitive on the world market. It is argued that Canada's domestic market of 25 million people is too small to allow the Canadian manufacturing industry to take full advantage of economies of scale associated with large volume production.

To achieve this goal of improving competitiveness, the Government of Canada has developed its negotiating objectives of securing, enhancing and enshrining access to the U.S. Secure market access is sought through the negotiation of new rules and procedures to curb U.S. capacity to restrict imports from Canada. An important part of this secure access focuses on the agreement of what constitutes a subsidy and whether or not it is countervailable. Enhanced market access is sought through ending domestic preference provisions in government procurement, and a broad elimination of tariffs and quotas with reasonable

phase-in adjustment provisions. Enshrined market access is to be pursued through institutional provisions to settle disputes and implement the resulting bilateral trade agreement in an equitable and bi-national manner.

The Government of Canada asserts that the trade negotiations with the United States are complementary to the multilateral trade liberalizing process under the General Agreement on Tariffs and Trade (GATT). This is also the declared United States position. In both countries bilateral negotiations are put forward as an opportunity to make progress in difficult areas such as services, agriculture, and the dispute settlement process, and thereby set an example for the new round of multilateral trade negotiations (MTNs).

The Government of Canada and the U.S. Administration agreed that at the start of the negotiations "everything was on the table." The negotiations would, therefore, be concerned with reaching agreement on exemptions and special treatment provisions. This approach differs substantially from the traditional exchange of request lists as practised in the multilateral trade negotiations.

The governments of Canada and the United States have both recognized that the agriculture, food and beverage sector would have to be dealt with differently from other sectors.

To date, the Government of Canada's trade initiative has received a mixed reception. A number of industry representatives, provincial governments and interest groups have supported the trade talks, while others have voiced concerns about the potentially adverse impacts of the trade initiative.

III. ONTARIO APPROACH

GENERAL

The Premier of Ontario, the Honourable David Peterson, has accepted that secure and enhanced access to the United States market are important objectives for Canada. However, Premier Peterson has asked whether the costs may exceed the benefits. One area of particular concern is the potential loss of government flexibility in important policy areas such as culture, social assistance, medical care, and three overlapping economic fields of industry, regional development and agriculture. Policy flexibility would be reduced by a further internationalization of the domestic economic agenda, the surrender of authority and the acceptance of limits on purposes and means.

The problem of interprovincial barriers to trade has also been emphasized by the Ontario Government. The case has been made that interprovincial barriers to trade need to be lowered prior to the reduction of trade barriers between Canada and the U.S. Provincial jurisdiction is another key issue raised in the bilateral talks.

Premier Peterson, along with the Premier of Quebec Robert Bourassa, have both stated that the provinces have a de-facto veto over areas under provincial jurisdiction, such as Liquor Control Boards. The issue of whether the provinces will need to formally ratify a Canada-U.S. trade agreement has yet to be settled.

AGRICULTURE, FOOD AND BEVERAGES

From Ontario's perspective, agriculture, food and beverages represent a special case in the bilateral negotiations for both Canada and the United States. The rationale for such a view is that:

- The biological nature of agricultural production creates risks and uncertainties greater than in the manufacturing sector.
- Regional climatic and soil conditions strongly influence the type of agricultural commodities produced.
- The current global oversupply of agricultural commodities and intense subsidized export competition have led to depressed commodity prices and farm incomes.

- Each country has unique marketing systems, such as supply-management and income stabilization in Canada and the commodity price support programs in the United States.
- Both countries provide substantial income transfers to agriculture, but each has targeted different commodities (e.g. grains in the U.S. and livestock in Canada).
- Agriculture is viewed as a regional development tool in Canada, and, hence it benefits from substantial direct and indirect financial assistance.
- Significant linkages exist between import measures and domestic agricultural policies.
- The regional specialization in farm production within Canada creates different interests that could result in interprovincial trade-offs.
- The high capital investment requirements, particularly for new entrants, coupled with low prices and high real interest rates, could subject this sector to significant economic and social dislocation under a "free trade" arrangement.

The achievement of enhanced trade between the two countries could expose Canadian agriculture, food and beverage interests to both opportunities and problems. On the positive side the U.S. represents a high income market of close to 240 million people that provides Canadian farmers and food processors with the opportunity to expand production. Ontario's agriculture and food sector has the added advantage of being within a day's drive of 100 million Americans. On the other side, competition from the U.S. raises fears of lower economic returns; more instability and risk; erosion of orderly marketing schemes; less producer control; increased vertical integration; reduced policy flexibility; and constraints on subsidies. The critical issue of concern is how the structure and performance of the entire agriculture, food and beverage sector is affected by the trade negotiations.

IV. INDUSTRY VIEWS

CANADA/ONTARIO

Response to the federal bilateral trade initiative by farm and processing groups in Canada has varied a great deal. A common element has been puzzlement over whether domestic agricultural policies will be included in the negotiations. A number of farm groups have adopted positions supporting the trade talks, some are opposed, and others still have not adopted a position.

Farm

Although farmers and farm groups have different interests and views, the Canadian Federation of Agriculture (CFA) adopted a motion concerning international trade negotiations at its annual meeting in March, 1986. A key section of the motion is quoted below:

"The CFA strongly supports trade negotiations, both bilateral and multilateral, which would seek to:

1. Establish fairer and more effective trading rules and dispute settling mechanisms.
2. Maintain and improve market access for Canadian agricultural products.
3. Reduce or eliminate international trade subsidies.

However, we insist that these trade negotiations must be done in a manner that will protect our right to establish and maintain distinctive and effective Canadian agricultural policy and will protect essential agricultural structures such as marketing boards, the Canadian Wheat Board marketing system and seasonal horticultural tariffs.

Across the board, open or free trade in all agricultural products is a simplistic approach that would not solve our problems and would be destructive to the interests of both farmers and Canada as a whole. We are adamantly opposed to any negotiations which would attempt to establish such an arrangement."

The Ontario Federation of Agriculture and l'Union des Producteurs Agricoles du Quebec supported the adoption of this motion.

In contrast to the CFA, the National Farmers Union (NFU) maintains that agriculture should be excluded from the negotiations. The NFU maintains it is against the national interest to become more dependent on the United States.

The Ontario Ministry of Agriculture and Food set out in the spring of 1986 to obtain a detailed understanding of the views and concerns of provincial farm groups and agribusiness. As part of this work, a paper was prepared summarizing the views of producer and processor groups (2).

The Ontario farm groups most supportive of the federal government's trade initiative are the Ontario Cattlemen's Association and the Ontario Pork Producers' Marketing Board. Both groups believe that securing and improving access to the United States for live animals and red meats should be given high priority, along with improving the dispute settlement process and reducing the threat of U.S. countervail actions. Ontario meat packers, through the Canadian Meat Council (CMC), favour reciprocal reductions in tariff and non-tariff barriers. The CMC and red meat farm groups hold very similar views on the importance of securing access to the United States.

The Ontario Milk Marketing Board and Ontario Cream Producers' Marketing Board both accepted that the nation has valid reasons for pursuing trade talks with the United States. However, both groups maintain that the benefits of the Canadian milk supply-management scheme for producers, processors, consumers and government should not be endangered by the negotiations. The Ontario Creamerymen's Association and the Ontario Milk Transportation Association hold similar views to these farm groups. The Ontario Dairy Council has not taken a position regarding the trade initiative.

The national and provincial farm organizations representing poultry and egg producers strongly oppose "free trade" between Canada and the U.S. The Ontario Chicken Producers' Marketing Board, the Ontario Turkey Producers' Marketing Board, and the Ontario Egg Producers' Marketing Board maintain that the national supply-management schemes have served producers, government and consumers well. These schemes should not, in their view, be endangered by the trade negotiations. This position is also taken by the Ontario Broiler and

Roaster Hatching Egg Commission. The Ontario Hatcheries Association also supports the maintenance of the supply-management schemes.

Ontario fruit and vegetable farm groups and industry associations have had a mixed reaction to the trade initiative. Marketing boards opposed to any changes in the present tariff and non-tariff barriers include the asparagus producers, tender fruit producers, and the grape growers. All these groups have pointed out that Ontario is at a significant climatic disadvantage when competing with California and the southern U.S. states. A number of other organizations are supportive of the trade negotiations. For example, the Ontario Vegetable Growers' Marketing Board believes that the Ontario industry is competitive in most vegetables with the United States, but is very concerned about unfair competition from other countries.

Grain and oilseed producer groups have also expressed views about the trade negotiations. The Ontario Wheat Producers' Marketing Board does not believe that the Canadian wheat policy, particularly the two-price scheme should be subject to negotiations. The Ontario Corn Producers' Association has no objection to tariff elimination, provided that Ontario growers receive the same level of government subsidies as U.S. growers.

Processing

The Ontario Food Processors Association is also supportive of the trade negotiations, provided that farmers and processors are both treated fairly. In other words, if trade protection is reduced for processed foods, then the level of protection provided to unprocessed commodities should be reduced by a commensurate amount.

In presentations to the Government of Canada in 1985 and October 1986, the Grocery Products Manufacturers of Canada (GPMC) raised concerns about certain domestic impediments to improving the competitiveness of grocery product manufacturers with U.S. competitors. The GPMC identified the supply-management marketing board system, the price setting negotiating powers of certain marketing boards, and higher labour costs as important factors impeding the free movement of goods. Supply-management is viewed as raising the costs of raw materials and thereby making Canadian food and beverage processors less competitive in processed products with their American

counterparts. The principal concern of the GPMC is that free trade in processed products could be allowed, while farm product prices are still subject to regulation.

A number of individual food processing companies have expressed concerns about the negative impact of free trade with the United States. For example, Canada Packers and McCain Foods Limited made submissions to the federal government in 1985. McCain Foods favoured the exclusion of the agriculture and food sector from the trade negotiations. Canada Packers stated that it was unequivocally opposed to free trade, as there was no guarantee that the benefits would be divided fairly between the two countries.

The Canadian Wine Institute and the Brewers Association are concerned about the damaging effect of a free trade agreement with the United States. The Brewers Association does not believe that free trade is a feasible option because of the devastating short-term impacts. The Association of Canadian Distillers favours free trade with the U.S., even though there are potential adjustment problems for the white spirits (e.g. vodka, rum, and gin).

Western Canadian Views

The Canada West Foundation, an independent policy group, surveyed the views of Western Canadian industries, including agriculture and food, and found considerable support for the free trade initiative with the U.S. (3). A review of the agriculture and food processing sector reveals that on a commodity basis, the views expressed by Western Canadian industries are similar to those held in Ontario. According to the report, cattle, oilseed and hog producers favour free trade; while dairy, poultry, egg and fruit and vegetable producers, wineries, and breweries are opposed. Interestingly, the largest western Canadian agricultural group, grain growers, appears to be indifferent.

UNITED STATES

U.S. farm groups and agribusiness organizations have not taken a strong interest in the Canada-U.S. trade negotiations (4). This is understandable since open access to the smaller Canadian market will not significantly increase market opportunities to U.S. producers. Furthermore, most U.S. producers do not feel

threatened by Canadian producers if free trade occurs. Although the general level of interest is low, a number of U.S. groups have been calling for the elimination of Canadian policies that distort trade, while others have been calling for the retention of existing U.S. support programs. A third group is still studying the issue and has not taken a firm position.

The U.S. farm, food and beverage groups that support reductions in Canadian trade barriers include: the National Broiler Council, the United Fresh Fruit and Vegetable Association, the International Apple Institute, the National Potato Council, the National Food Processors' Association, the National Association of Beverage Importers, the Beer Institute, and the Wine Institute. In the fall of 1986, all these groups submitted briefs to the Office of the U.S. Trade Representative (USTR) outlining their views about the trade-distorting effects of certain Canadian policies. The USTR has solicited industry views as part of its preparations for the trade negotiations.

The American Farm Bureau Federation has adopted a motion giving conditional support to the Canada-U.S. trade negotiations. A task force has been established to study the issue on a commodity by commodity basis.

A number of U.S. farm groups have stated publicly their opposition to changes in U.S. support programs. Included in this group are the National Milk Producers' Federation and the U.S. Sugar Beet Association. In submissions to the USTR, these groups would like their respective sectors excluded from the negotiations.

The National Cattlemen's Association and the National Pork Producers' Council are concerned about Canadian federal and provincial government subsidies to livestock producers. Both groups are hesitant to endorse the bilateral trade initiative before assurances are given that the issue of government subsidies will be dealt with.

A number of U.S. farm groups and agribusinesses have not adopted a firm position on the bilateral trade negotiations. In many cases facts are being gathered and issues studied before a firm position is taken. This group includes the American Soybean Association, the National Association of Wheat Growers, the U.S. Tobacco Institute, and the Grocery Manufacturers' Association.

A comparison of the positions of producers of the same commodity in Canada and the U.S. indicates that in most cases producers hold divergent views. Only in the case of milk production do producers in both countries share a common position that trade negotiations should not endanger the respective government support programs for milk producers and regulatory systems.

V. REVIEW OF STUDIES

One of the most controversial issues raised by the Canada-U.S. trade negotiations is the economic effects of bilateral free trade on the Canadian economy, individual sectors, and the provinces. Controversy over the effects also holds true for the agriculture, food and beverage sector. A great many different views and opinions have been expressed on free trade with the U.S., but only a relatively few studies have been undertaken and not many of these have been empirical.

A number of economic studies have suggested there are gains to be had from a free trade arrangement with the U.S. A recent example is the Economic Council of Canada 1986 annual report which provides both estimates of the gains from free trade and losses from increased U.S. protectionism (5). Under bilateral free trade the Council estimates that real economic output would increase by approximately 2 percent by 1995. If the U.S. were to impose a 20 percent surcharge on imports of most goods and other trading partners retaliated, the Council estimates that real economic output in 1995 would be 5 percent below the projected level under the current trading relationship.

The gains from free trade rest on the assumption that adjustment and restructuring of the economy occurs. Concerns have been raised that the adjustment process will cause a great deal of dislocation and increase unemployment, not decrease it. The Ontario Government has raised these concerns with the Government of Canada.

Many of the studies concerning the agriculture, food and beverage sector have aimed to identify policy issues and examine the impacts of bilateral free trade. In this paper a number of studies are reviewed, with emphasis placed on the assessments made of removing barriers to trade. This review is not exhaustive. In general, a qualitative approach has been taken in assessing the impacts because of the difficulty of making quantitative economic assessments. Quantifying the impact of free trade on Canada's agriculture and food sector is severely hampered by the lack of a comprehensive, economic information base. For example, information about how producers and consumers will react to changes in prices is unavailable for many commodities. Similarly, information is far from complete about the investment decisions of food and beverage processors.

The qualitative approach to assessing impacts has involved comparing Canadian and U.S. government policies, product prices and production costs, where possible. These comparisons are then used to establish whether the effect of free trade is positive or negative on production, producer numbers and trade flows and to the magnitude of the adjustments required. A number of studies have gone further and have provided quantitative estimates of the effects. However, the lack of empirical analysis greatly handicaps the debate over the merits of the trade initiative.

NATIONAL

Goodloe and Normile (6) argue that the complete removal of trade barriers would have minimal trade impact on the beef, pork, grain and oilseed sectors. But a number of important policy harmonization issues were identified. Significant adjustments were found to be required in several sectors:

"Free trade in dairy products could disrupt the price support programs in both countries. If U.S. sugar quotas were removed, increased Canadian exports of sugar and products to the United States would interfere with the U.S. sugar program. Canada's poultry and egg sector, wine and horticultural products are heavily protected by various domestic policies and trade restrictions and would be disadvantaged ..."

Benefits from free trade for both countries were viewed as "lower consumer prices, greater efficiencies in production, and improved access to a large high-income market".

A more comprehensive analysis of the policy implications on a sector by sector basis was undertaken by Barichello and Warley (7). They found that most sectors would face the prospect of adjustments, but the greatest pressure for rationalization would be felt by the dairy industry, followed by the poultry and certain fruit and vegetable industries. The dairy industry was judged to be less competitive than the poultry industry in comparison to their respective U.S. counterparts.

According to Barichello and Warley, the industries that were found to benefit from a free trade arrangement were beef, hogs, small fruit, cole crops and storable vegetables, but the gains were not felt to be particularly large. The impact on the grains and oilseed sector was viewed as being small, but the sector faces pressures to change policies and institutional arrangements. Regional differences on the impact of free trade were also identified.

The assessments by Goodloe and Normile, and Barichello and Warley both suggest that the gains to Canada's agriculture and food sector are smaller than the potential losses. Furthermore, Barichello and Warley suggest that benefits to consumers of lower prices would outweigh producer losses. Therefore, it is asserted, including agriculture in the free trade agreement will lead to net economic benefits for Canada.

Due to the differences in climate and geography, and therefore the product mix of agriculture, there are important regional differences in the impact of free trade. This is illustrated by studies that have taken Western Canada and Quebec perspectives.

PRAIRIES

Deloitte, Haskins and Sells has examined the impact on the Prairie agricultural industries (8). The impact was assessed over a 10 year period in terms of changes in farm cash receipts. It was concluded that the beef sector would gain the most, followed at a distance by pork, oilseeds and specialty crops. Table 1 provides a summary of the findings. It should be noted that the table does not include anticipated increases in sales that would occur without free trade.

Table 1 shows that farm cash receipts for the Prairie beef industry are expected to increase by 7 percent by 1995 as a result of free trade. The gains for beef producers are offset by losses faced by poultry and feedgrain producers. Chicken and turkey cash receipts are expected to decline 80 percent because the small family-run operations in the Prairies are not competitive with U.S. producers.

Feedgrain cash receipts are expected to decline because feedgrain markets in Eastern Canada would be lost to U.S. corn. Malt barley sales would also decline as a result of competition from U.S. suppliers. The impact on pork, sheep, wheat, canola, flax, rye and specialty crops was neutral to slightly positive.

Table 1:--Estimated Effects on Prairie Agriculture of Free Trade
between Canada and the United States, 1995,
Selected Agricultural Commodities

Commodity	% Change in Production in 1995 ^a	1983 Prairie Farm Cash Receipts	Change in Farm Cash Receipts
	%	- \$ million -	
Beef	+7	1,690	118
Pork	+2	433	9
Sheep	0	9	0
Chicken & turkey	-80	150	-120
Wheat	0	4,118	0
Feedgrains	-6	906	-53
Canola	1	712	21
Flax	1	151	1
Rye	1	60	1
Mustard, pulses and specialty crops	1	99	1
TOTAL	0	8,328	-22

^a This table is a modified version of the table appearing in the report. It has been modified so as to exclude the anticipated increases in sales through to 1995 in the current trade environment of 5% for beef, 2% for pork, and 2% for canola.

Source: Deloitte, Haskins and Sells (8).

It is interesting to note that Deloitte, Haskins and Sells found that the net effect of free trade was negative on the farm cash receipts of the commodities studied. If the small dairy and horticultural industries had been included, Prairie farm cash receipts would have declined further as a result of free trade. Deloitte, Haskins and Sells also noted the large pressures to harmonize Canadian policies with U.S. policies under bilateral free trade. The institutional

implications of these pressures, particularly to the Canadian Wheat Board, cannot be ignored. Marketing boards are felt by many agriculturists to be a vital part of the agricultural economy.

QUEBEC

The impact of free trade on Quebec's agriculture sector has been investigated by Yvon Proulx for l'Union des Producteurs Agricoles du Quebec (9). One of the main concerns raised was that bilateral free trade would increase the variability of farm income in Quebec. This would occur as a result of eliminating the supply-management and income stabilization programs. Proulx identified the poultry, egg and dairy industries as being the most disadvantaged by free trade. Other producers that would be hurt are hog producers from the loss of income stabilization, and certain fruit and vegetable growers from the elimination of seasonal tariffs. The only Quebec products that were felt to benefit were potatoes, certain other vegetables and grains.

COMMENT

A common theme in all the studies reviewed is, that from an agricultural and agribusiness perspective, the gains from bilateral free trade are small compared to the losses. Even farm cash receipts on the Prairies are expected to decline as a result of free trade between Canada and the U.S., according to the Deloitte, Haskins and Sells study. There is agreement that in Canada the supply-managed dairy, poultry, and egg industries, and the partially-protected horticultural and grape/wine industries would face large dislocation costs. Furthermore, there is also general agreement that the livestock industry would benefit through improved development opportunities from secured access to the U.S. However, it must be noted that all these studies are not complete reviews of short and long-term impacts of a "free trade" agreement. Indeed, the very complexity of this sector requires that any analysis must make several assumptions that prevent its complete applicability to the real situation facing farmers, processors and consumers.

Another shortcoming of these studies is that the benefits to Canada of the U.S. modifying its agricultural policies, particularly the grain price support programs, have not been included. The reluctance to include these benefits reflects the fact that trade in these products is with third countries. Furthermore, there is a generally held view that there is little point in undertaking the analysis, as the U.S. would be unwilling to fundamentally alter its farm policies in the context of the bilateral trade negotiations. If this is in fact the case, then Canada's bargaining position in the trade negotiations is not as weak as the impact analysis reviewed in this paper would suggest.

VI. AGRICULTURAL SYSTEM COMPETITIVENESS

INTRODUCTION

The agriculture and food industry is a highly complex, dynamic and powerful sector of the domestic economy. The present competitive environment of the industry has been created by an array of market forces and public policies, including continuing changes in technology, capital availability, labour mobility, increasing productivity, changing consumer tastes and macroeconomic policy decisions. The Canadian and, indeed, North American agriculture, food and beverage industry must continue to adapt to meet the changing demands of society.

Across North America, farm and agribusiness industries are currently facing periods of substantial financial adjustment as these sectors realign to meet present deflationary patterns, limited economic growth prospects, stable domestic consumption levels and an increasingly competitive and somewhat reduced global marketplace for their products. Increased competition, cost-cutting, and market segmentation are transforming the food processing, distribution and retailing industries. Faced with limited flexibility in overall food and beverage consumption, agriculture and food industries are implementing cost reduction measures, productivity improving techniques and market promotion activities to achieve even modest growth targets.

Finally, all segments of the agriculture, food and beverage industry face the impacts from agriculture and food policies of other jurisdictions, and the impacts of global economic forces. The responses by these industry segments in turn vary according to historical reliance on the public sector, influence of regulations, and the ability to adapt to these changes. A move to freer trade with the U.S. would add considerably to those producers and processors in the protected industries that are experiencing financial difficulties, while at the same time creating opportunities for a few.

Some fundamental questions have to be answered before seeking free trade. The concern over the competitiveness of the Ontario food and beverage industry is one such question. An examination is also required to determine what measures

are needed to maintain and enhance competitiveness, both domestically and in the U.S. market. Finally, there is a need to estimate whether Ontario's agri-food sector will be larger or smaller as a result of "free trade".

GOVERNMENT POLICIES

Before examining the competitiveness of Ontario's agriculture and food industries, the government policies in Canada and the U.S. must be reviewed. Government regulations, expenditures and trade barriers in many cases have a determining effect on the competitive position of farmers and processors and trade flows between the two countries.

Significant government involvement in the agriculture and food sector exists in both the U.S. and Canada. Agricultural policies have been implemented with many of the same goals in mind, such as stabilizing farm incomes and prices, orderly marketing, and preserving family farms. However, Canada and the U.S. have taken different approaches to achieve these objectives, both in terms of commodities supported and policy tools used. Another important difference is that in Canada, the provincial governments are deeply involved in setting and administering agricultural programs along with the federal government. In the U.S, agricultural policy is essentially a federal matter. The states are mainly involved in health and quality inspection, disease control, and some market development activities.

In Canada, the federal and provincial governments provide income stabilization programs for grain, livestock and certain fruit and vegetables. National supply-management schemes, supported by both levels of government, ensure the orderly marketing of milk, chicken, turkey and eggs. The Government of Canada limits imports of dairy products, poultry meat and eggs to prevent the supply-management programs from being undermined by imports. The marketing of grains in the Prairie provinces is regulated and administered by the Canadian Wheat Board. Import controls allow higher wheat prices to be obtained from domestic sales than from exports. Although tariffs have been reduced through various rounds of multilateral trade negotiations, tariffs still provide protection to a wide range of farmers and processors of agricultural commodities,

particularly to the horticultural and tobacco industries. Many fresh fruit and vegetables are subject to seasonal tariffs and processed products benefit from year round tariffs. Ontario's tobacco growers operate a provincial supply-management scheme with the help of sizeable tariffs on tobacco imports. Other federal and provincial programs include crop insurance, development assistance, transport subsidies, credit assistance, quality and health inspection, and research and development. The alcoholic beverage industries are regulated by provincial governments. Currently, pricing and marketing practices of the provincial liquor control boards give preference to domestic products, particularly beer and wine. Provincial governments have encouraged the establishment of farmer-controlled marketing boards and cooperatives to increase the bargaining power of farmers within the food chain.

In the U.S., agriculture price and income programs are in place for wheat, feedgrains, cotton, soybeans, dairy, sugar, tobacco, peanuts, rice, and honey. The U.S. uses import quotas and duties to protect the integrity of a number of these support programs. Currently, import quotas are an integral part of the dairy and sugar support programs. U.S. producers and processors of many agricultural commodities benefit from tariff protection, however, this has gradually been reduced through various rounds of multilateral trade negotiations. The U.S. has used marketing orders for dairy, fruit, vegetables and nuts, and the cooperative system to increase the bargaining power of the farmers with processors. It is notable that the U.S. does not directly support its beef, hog, egg, fruit and vegetable producers. However, U.S. fruit and vegetable growers have benefitted from subsidized irrigation schemes and livestock producers from tax exemptions, irrigation subsidies, and low grazing fees on government rangeland. The U.S. is extremely critical of export subsidies used by other countries, particularly the EC. However, lately the U.S. has turned to export subsidies in a bid to boost sagging exports of grains and oilseeds and regain its market share of global markets. This U.S. initiative has profound effects on Canada, domestically and internationally.

In recent years, government expenditures on agriculture in the U.S. and Canada have been growing. These increased expenditures are in response to the large number of producers in both countries who are suffering financial hardship caused by low commodity prices. As a result, agricultural subsidies to Canadian and U.S. farmers are large and represent a sizeable proportion of farm income.

This is illustrated in Table 2, where direct government payments to farmers in Ontario, Canada and the U.S. are compared. In 1985, direct payments to farmers in Ontario, Canada and the U.S. were \$369 million, \$1.9 billion and \$10.5 billion, respectively. In all three jurisdictions, government payments represent a significant part of net farm income. In addition to the direct government payments, farmers both in Canada and the U.S. benefit from indirect government payments to processors, tax assistance and regulation of domestic markets and trade. However, measuring these indirect benefits is extremely difficult and beyond the scope of this paper.

Table 2:--Direct Government Payments to Farmers and Net Farm Income, Ontario, Canada, and the U.S., 1981-1985

Year	Direct Government Payments to Farmers (DGPF)			Net Farm Income			DGPF as a % of Net Farm Income		
	Ont. ^a	Can. ^a	U.S. ^b	Ont.	Can.	U.S.	Ont.	Can.	U.S.
	- \$ million -						- percent -		
1981	250	838	2,300	752	3,755	35,400	33.2	22.3	6.5
1982	220	898	4,300	715	3,478	30,400	30.8	25.8	14.1
1983	260	832	11,500	917	3,362	18,500	28.3	24.8	62.2
1984	293	1,409	10,900	1,124	4,369	44,800	26.1	32.3	24.3
1985	369	1,891	10,500	1,025	3,908	41,800	23.2	48.4	25.1

^a In Canada, direct government payments to farmers stem from the following federal and provincial programs: dairy supplementary payments, western grain stabilization, provincial income stabilization, federal deficiency payments, supplementary payments, crop insurance, farm tax rebates, interest subsidies, fertilizer, fuel and lime subsidies, and animal health programs.

^b In the U.S., direct government payments to farmers are made under the following programs: conservation; price support for feedgrain, wheat, rice, cotton, wool; payments-in-kind (PIK), PIK storage, dairy indemnity, rural clean water, clean lakes, water bank, emergency livestock feed, extended storage, milk diversion, and health inspection service indemnity.

Note: All values are in Canadian dollars. (See Appendix B for exchange rates.)

Source: Statistics Canada, Cat. No. 21-202 and United States Department of Agriculture, ERS, Economic Indicators of the Farm Sector, National Financial Summary.

Agricultural producers and processors in Canada and the U.S. have access to contingency protection, which is used to provide relief from imports that are hurting the domestic industry. In the case where an industry is being injured by unfairly traded imports, countervailing or anti-dumping duties can be imposed. Countervailing duties are designed to offset the injurious affects of foreign government subsidies. Anti-dumping duties protect domestic producers from being injured by imports being sold at below the cost of production. In the case where fairly traded imports are injuring the domestic industry, safeguard measures such as a surtax on import quotas can be imposed. Examples of safeguard measures are the Canadian and U.S. Meat Import Acts. Safeguard actions are intended to provide temporary protection during which time the domestic industry has the opportunity to adjust.

Since 1980, Canadian agricultural exports to the U.S. have been subject to an increasing number of contingency protection actions. U.S. anti-dumping investigations have concerned sugar, potatoes, raspberries and carnations. U.S. countervail investigations have involved live hogs and pork, raspberries, and carnations. The U.S. has undertaken a safeguard investigation into apple juice imports.

During the same period, Canada has taken contingency protection against certain U.S. agricultural products. Anti-dumping investigations have been taken against U.S. refined sugar, potatoes, and onions. The only countervail investigation of a U.S. product is one that concerns corn, which is still underway. Finally, U.S. onions were subject to a safeguard action under the fast-track surtax policy.

Trade flows between Canada and the U.S. are directly influenced by government policies. Border trade barriers such as tariffs, quotas, and contingency measures all have a direct impact. Furthermore, government subsidies, marketing schemes, quality and health regulations influence trade flows through altering production and consumption patterns. However, the extent to which trade flows are influenced by government policies varies from commodity to commodity. Appendix A provides details on a commodity by commodity basis of the Canadian and U.S. tariff and non-tariff measures. This overview of Canadian and U.S. agricultural policies has illustrated that there are many differences that will make the negotiation of a trade agreement in this area a difficult and complex undertaking.

COMPETITIVENESS

Competitiveness is a dynamic condition, with production costs and prices constantly changing. New technology, new sources of supply and new products all alter the competitive relationships between firms, industries and countries. Moreover, public investments in the infrastructure, transportation, education and research will all affect the underlying competitiveness of an industry, region, or country. These public investments should not be ignored in understanding competitiveness. The dynamic nature of competitiveness is important when assessing and commenting on the ability of Ontario's agriculture and food system to compete domestically and in the U.S. market.

Unfortunately, measuring competitiveness is not a simple task. There are many methodological and practical problems. Production costs are influenced by many factors, including availability of materials, labour, technology, and management. Furthermore, information on production costs is often not readily available. Product prices are perhaps easier to obtain, but are also subject to many influences, which include consumer demand, market power of individual firms, supply, competition from other goods, exchange rates and government policies.

Food, Beverage and Tobacco

The food, beverage and tobacco manufacturing sector is a large and vital sector of the economies of Ontario, Canada and the U.S. A large number of industries are included in this sector - namely, meat packers, poultry processors, fruit and vegetable industries, dairy processors, bakeries, vegetable oil mills, sugar refiners, soft drink bottlers, distillers, breweries, wineries and tobacco manufacturers.

In Ontario the food, beverage and tobacco sector contributes about 14 percent to the value of total provincial manufacturing shipments and employs over 85,000 people, equivalent to around 10 percent of the province's manufacturing work force. Total employment in this sector has remained relatively stable over the last 10 years with output increasing about 3 percent per year. Meat and poultry processing account for almost 20 percent of all employment within the sector, followed by bakery products at 13 percent. In terms of value added, the

beverage industry contributed the most with about 24 percent, while employing 14 percent of the sector's total employment.

Generally speaking, the distribution of Canada's food, beverage and tobacco industries among the provinces reflects provincial population. Ontario accounts for about 40 percent of Canadian shipments, while having just over 36 percent of the population. Like Ontario's agricultural sector, the processing sector is broadly based.

Canada's food, beverage and tobacco sector shares many characteristics and faces market trends similar to the U.S. sector. However, in making comparisons, the larger scale of the U.S. market must be noted. In 1984, the total value of shipments of the U.S. food, beverage and tobacco sector was \$405 billion, compared to \$36 billion in Canada and \$15 billion in Ontario (Table 3).

Table 3:--Value of Shipments of Food, Beverage and Tobacco Industries, Ontario, Canada and the U.S., 1984

Industry	Ontario		Canada		United States	
	Value of Shipments	% Share	Value of Shipments	% Share	Value of Shipments	% Share
	\$ million	%	\$ million	%	\$ million	%
Meat packers	2,662	17.9	8,277	22.9	76,574	18.9
Poultry processors	586	3.9	1,454	4.0	15,505	3.8
Fruit & vegetable proc.	1,078	7.2	1,682	4.6	28,255	7.0
Frozen fruit & veg proc.	158	1.1	577	1.6	7,752	1.9
Dairy products	1,978	13.3	6,096	16.9	52,469	12.9
Flour & break. cereal	703	4.7	1,223	3.4	15,656	3.9
Feed	904	6.1	2,660	7.4	21,839	5.4
Biscuit manufacturers	256	1.7	490	1.4	7,383	1.8
Bakeries	495	3.3	1,341	3.7	17,795	4.4
Confectionery	505	3.4	928	2.6	14,648	3.6
Cane & beet sugar	n/a	n/a	553	1.5	7,983	2.0
Vegetable oil mills	417	2.8	964	2.7	13,773	3.4
Soft drinks	647	4.3	1,589	4.4	23,444	5.8
Distilleries	485	3.3	823	2.3	4,422	1.1
Breweries	771	5.2	1,905	5.3	15,413	3.8
Wineries	101	0.7	235	0.6	3,500	0.9
Miscellaneous	2,293	15.4	3,788	10.5	56,355	13.9
Tobacco products	843	5.7	1,590	4.4	22,649	5.6
TOTAL	14,882	100.0	36,175	100.0	405,414	100.0

n/a = Not applicable.

Note: All values are in Canadian dollars. (See Appendix B for exchange rates.)

Source: U.S. Department of Commerce, Annual Survey of Manufacturers, 1984.
Statistics Canada, Manufacturing Industries of Canada: National and Provincial Areas, Catalog 31-203, 1984.

A comparison of the relative importance of the various processing industries in Canada and the U.S. shows that there are marked similarities. Table 3 provides a breakdown of each industry's share of the value of shipments for the sector. In Ontario, Canada, and the U.S., the meat packing, dairy processing, and fruit and vegetable processing industries rank one, two and three.

Lanoie (10) has compared the structure and performance of the Canadian and U.S. food and beverage industries between the early 1960's and early 1980's. He concluded that even though the Canadian and U.S. food processing industries have undergone a similar rationalization process (i.e. the sharp decline in processing plant numbers), there are a number of important differences between food processors in Canada and the U.S. In Canada, food processing firm ownership is more concentrated, foreign ownership is greater, private food research efforts are smaller, labour productivity lower, and profitability lower compared to U.S. food processors.

In general, Canadian food and beverage processing industries have adopted technological processes similar to those in the U.S. Many Ontario firms have been early adopters of innovative processing and packaging technology. Again, the immense size of the U.S. market has provided greater opportunities for the establishment of large scale operations that can make the most efficient use of advanced technology. Another difference is that Canada is extremely dependent on imports of food processing equipment, particularly from Europe and the U.S. This reflects the relative low level of research and development in food processing technology in Canada.

One example of a similar trend occurring in Canada, as in the U.S., is the decline in the number of processing establishments over the last 15 years. In Ontario this trend is not as pronounced. Table 4 compares processing plant numbers in 1972 with 1982 (the latest numbers available for the U.S.) in Ontario, Canada and the U.S. A comparison of trends in Ontario and the U.S. reveals both similarities and differences. In Ontario and the U.S., the number of fruit and vegetable processors, dairy processors, feed mills, and soft drink manufacturers has declined substantially. In Ontario the total number of meat packers, poultry processors, bakeries and breweries has remained fairly constant, while in the U.S. the number of these establishments has declined sharply.

Based on a study prepared for External Affairs by Data Resources of Canada (11), the Canadian food and beverage industry in 1984 held a slight cost advantage against U.S. processors, with total unit costs in Canadian funds about 2 percent lower than those in the U.S. (Total unit costs included taxes, interest payments, depreciation charges, labour and material costs.) Canadian labour productivity ranged from 55 to 60 percent of U.S. values during the period 1982-1984.

After exchange rate adjustments were made, processing costs were brought into line between the two countries. As a result, the competitiveness of Canada's food and beverage sector was maintained. The Data Resources of Canada study also found that Canada's tobacco manufacturing sector (like the growers) was very cost-competitive with the U.S. over the period 1972 to 1982. Canadian tobacco manufacturers held a 70 percent cost advantage over the U.S. in 1984.

Table 4:--Number of Food, Beverage and Tobacco Establishments, Ontario, Canada and the U.S., 1972 and 1982

Industry	Ontario			Canada			United States		
	1972	1982	% Change	1972	1982	% Change	1972	1982	% Change
	- no. -		%	- no. -		%	- no. -		%
Meat packers	171	174	1.8	468	486	3.8	4,297	3,510	-18.3
Poultry processors	36	36	0.0	98	96	-2.0	652	534	-18.1
Fruit & vegetable proc. ..	113	85	-24.8	215	177	-17.7	1,914	1,438	-24.9
Frozen fruit & veg proc. ..	11	17	54.5	32	36	12.5	209	264	26.3
Dairy products	258	155	-39.9	731	402	-45.0	4,590	2,712	-40.9
Flour & break. cereal	23	27	17.4	50	53	6.0	641	523	-18.4
Feed	240	186	-22.5	731	570	-22.0	2,341	2,122	-9.4
Biscuit manufacturers	18	14	-22.2	43	28	-34.9	315	358	13.7
Bakeries	548	481	-12.2	1,768	1,404	-20.6	3,323	2,304	-30.7
Confectionery	51	51	0.0	124	110	-11.3	1,078	906	-16.0
Cane & beet sugar	2	4	100.0	14	12	-14.3	172	130	-24.4
Vegetable oil mills	3	3	0.0	10	12	20.0	125	166	32.8
Soft drinks	108	64	-40.7	363	203	-44.1	2,687	1,626	-39.5
Distilleries	11	14	27.3	29	33	13.8	121	98	-19.0
Breweries	10	11	10.0	42	40	-4.8	167	109	-34.7
Wineries	8	10	25.0	28	33	17.9	213	364	70.9
Miscellaneous	107	131	22.4	281	317	12.8	4,153	3,941	-5.1
Tobacco products	13	11	15.1	27	24	-11.1	272	163	-40.1
TOTAL	1,731	1,474	-14.8	5,054	4,036	-20.1	27,270	21,268	-22.0

Source: U.S. Department of Commerce, Census of Manufacturers, 1972 and 1982.
 Statistics Canada, Manufacturing Industries of Canada: National and Provincial Areas, Catalog 31-203, 1972 and 1982.

One of the important structural differences between food and beverage processors in Canada and the U.S. is that in many industries Canadian operations are much smaller. Table 5 allows comparisons of establishment size, measured in terms of the value of shipments per establishment, to be made between similar industries in Ontario, Canada, and the U.S.

The average size of industries (based on value of shipments) is more similar for those industries that operate in the North American market. For example, the average sales of Canadian meat packers was \$16 million, compared to \$20

Table 5:--Average Value of Shipments for Food, Beverage and Tobacco Industries, Ontario, Canada and the U.S., 1982

Industry	Ontario			Canada			United States		
	No.	Shipments		No.	Shipments		No.	Shipments	
	Est.	Value	Avg.	Est.	Value	Avg.	Est.	Value	Avg.
- \$ million -									
Meat packers	174	2,665	15.3	486	7,927	16.3	3,510	72,698	20.7
Poultry processors	36	479	13.3	96	1,215	12.7	534	12,927	24.2
Fruit & vegetable proc. ..	85	950	11.2	177	1,489	8.4	1,438	23,998	16.7
Frozen fruit & veg. proc..	17	118	6.9	36	478	13.3	264	6,636	25.1
Dairy products	155	1,750	11.3	402	5,364	13.3	2,725	48,227	17.7
Flour & break. cereal	27	619	22.9	53	1,095	20.7	523	12,943	24.7
Feed	186	743	4.0	570	2,404	4.2	2,122	19,383	9.1
Biscuit manufacturers	14	213	15.2	28	427	15.3	358	5,759	16.1
Bakeries	481	506	1.1	1,404	1,440	1.0	2,304	16,226	7.0
Confectionery	51	663	13.0	110	922	8.4	906	12,228	13.5
Cane & beet sugar	4	n/a	n/a	12	597	49.8	130	7,000	53.8
Vegetable oil mills	3	348	116.0	12	722	60.2	166	11,186	67.4
Soft drinks	64	558	8.7	203	1,319	6.5	1,626	20,751	12.8
Distilleries	14	464	33.1	33	807	24.5	98	3,859	39.4
Breweries	11	656	59.6	40	1,667	41.7	109	13,806	126.7
Wineries	10	100	10.0	33	219	6.6	364	3,440	9.5
Miscellaneous	131	1,790	13.7	317	3,131	9.9	3,941	48,241	12.2
Tobacco products	11	814	74.0	24	1,494	62.3	163	19,828	121.6
TOTAL	1,474	13,436	9.1	4,036	32,717	8.1	21,281	359,136	16.9

n/a = not applicable.

All values are in Canadian dollars. (See Appendix B for exchange rates.)

Source: U.S. Department of Commerce, Census of Manufacturers, 1982 (latest available U.S. information on establishment numbers). Statistics Canada, Manufacturing Industries of Canada: National and Provincial Areas, Catalog 31-203, 1982.

million in the U.S. Those Canadian industries that benefit from trade barriers tend to be, on average, smaller than their U.S. equivalents. For example, U.S. poultry processors, dairy processors, and breweries are significantly larger than comparable Canadian industries. The average sales per establishment of Ontario poultry processors was \$13 million, while U.S. poultry processors averaged \$24 million. The comparison of breweries reveals that average sales per establishment in Ontario and the U.S. were \$60 million, and \$127 million, respectively. However, Ontario's breweries average sales per establishment were much higher than in the rest of Canada.

Table 6 indicates that in 1984 the U.S. food, beverage, and tobacco industries appear to have a competitive advantage over most Ontario and Canadian industries in terms of labour productivity (value added per \$ of wages is used as a proxy). Although Ontario's industries in general have slightly lower labour costs than the U.S., lower labour productivity offsets this cost advantage.

Table 6:--Labour Productivity for Food, Beverage and Tobacco Industries, Ontario, Canada and the U.S., 1984

Industry	Wage/hour			Value added/\$ of Wages		
	Ontario	Canada	U.S.	Ontario	Canada	U.S.
- dollars -						
Meat packers	11.80	11.47	10.95	2.72	2.59	3.55
Poultry processors	8.75	9.12	7.27	2.42	2.13	2.73
Fruit & vegetable proc.	9.75	9.07	10.72	4.73	4.41	5.39
Frozen fruit & veg. proc.	8.35	7.42	9.18	4.18	4.34	4.73
Dairy products	10.50	11.38	11.88	3.66	4.10	6.12
Flour & break. cereal	12.51	12.83	16.47	4.38	4.03	7.26
Feed	9.72	9.86	11.33	4.76	4.30	8.91
Biscuit manufacturers	9.70	9.79	11.78	2.77	2.98	5.30
Bakeries	9.54	9.60	12.41	2.66	2.97	5.29
Confectionery	8.84	8.83	10.77	4.17	4.68	5.98
Cane & beet sugar	n/a	13.10	12.85	n/a	5.16	4.25
Vegetable oil mills	13.50	13.28	13.22	3.40	3.25	5.29
Soft drinks	10.86	11.13	11.06	6.42	4.90	10.28
Distilleries	14.78	14.30	15.02	7.65	6.77	9.11
Breweries	13.83	14.51	23.37	7.18	5.27	5.79
Wineries	11.43	12.25	13.25	6.75	6.28	8.02
Miscellaneous	10.14	10.03	10.91	5.58	5.75	8.03
Tobacco products	14.97	15.88	16.72	6.76	5.95	11.56

Note: All values are in Canadian dollars. (See Appendix B for exchange rates.)

Source: U.S. Department of Commerce, Annual Survey of Manufacturers, 1984.
 Statistics Canada, Manufacturing Industries of Canada: National and Provincial Areas, Catalog 31-203, 1984.

The Ontario industries with higher hourly wage costs than in the U.S. in 1984 were: meat packers (\$11.80/hr. compared to \$10.95/hr.); poultry processors (\$8.75/hr. compared to \$7.27/hr.); and vegetable oil millers (\$13.50/hr. compared to \$13.22/hr.). The Ontario industries with the greatest wage cost advantage over the U.S. were breweries (\$13.83/hr. compared to \$23.37/hr.) and flour and breakfast cereal producers (\$12.51/hr. compared to \$16.47/hr.)

In terms of labour productivity (as measured in terms of value added per dollar of wages), Ontario industries lag behind the U.S. The industries that lag the furthest behind are the dairy (\$3.66 compared to \$6.12); biscuit (\$2.77 compared to \$5.30); bakeries (\$2.66 compared to \$5.29); and tobacco (\$6.76 compared to \$11.56). The only Ontario industries with higher labour productivity than the U.S. were sugar refiners (Canada) and breweries.

The comparison of establishment sizes, wage rates and productivity between the U.S. and Canada suggests there are important differences that disadvantage a number of Canadian food and beverage processors; particularly, dairy processors, poultry processors, and breweries. In general, U.S. industries are larger on average, and have higher labour productivity. This information should be treated with caution because more detailed analysis is needed about the variation of cost and productivity within industries before firm conclusions can be made about the competitiveness of Ontario's food, beverage and tobacco industries. However, what is clear from the above analysis is that there are important industry differences between Canada and the U.S.

Agriculture

Ontario's agricultural sector generated \$5.5 billion in farm cash receipts, with a net income of \$1.4 billion in 1986. Ontario is Canada's largest agricultural producing province, accounting for 26-27 percent of domestic farm cash receipts. Unlike the other provinces, particularly those in the Prairie region, Ontario's overall farm income picture has been relatively stable in recent years. This reflects the diversity of agricultural production, and an emphasis on the production of higher value commodities.

Table 7 provides a profile of the agricultural sectors in Ontario, selected neighbouring jurisdictions, Canada, and the U.S. It is interesting to note the similarity of the agricultural profiles of Ontario and Michigan, which have a comparable land base, location and population. Both jurisdictions have diversified agricultural sectors and produce similar quantities of grain corn, wheat, soybeans, milk, livestock, strawberries and grapes. There are also important differences. Ontario produces significant quantities of tobacco, poultry, and eggs, while Michigan produces practically none.

A comparison of the agricultural profiles of Canada and the U.S. illustrates the much larger size of the U.S. industry. In 1985, U.S. farm cash receipts were valued at \$195 billion, compared to \$20 billion in Canada. The U.S. agricultural sector is more diversified than the Canadian, with fruit and vegetable production playing a larger part. Still, grain and oilseed industries are the largest components of both the U.S. and Canadian agricultural sectors.

Prices received by Ontario farmers for livestock, grains, oilseeds, and dry beans are set by North American or global markets. Farm cash receipts from these commodities represent 51 percent of Ontario's total. Fruit, vegetable, and tobacco farm-gate prices in Ontario benefit from tariffs and other measures, but are linked directly to external market conditions. Farm cash receipts from fruit, vegetables, and tobacco account for 16 percent of Ontario's total. Only farm prices of milk, poultry, and eggs are set through formulas based on the cost of production in Canada. Farm cash receipts from these commodities under national supply-management schemes represent 28 percent of Ontario's total. Those commodities where prices are set by the North American market or world market are expected to be the least affected by a free trade arrangement with the U.S.

Ontario's farm prices for selected agricultural commodities under various market conditions are compared with U.S. prices in Figures 1a and 1b. Although U.S. and Ontario farm prices were collected using different methodologies, and there are some quality and variety differences, a comparison of the information is reasonable. Ontario's farm prices are indicated by a solid line. A comparison of farm prices in Ontario with the average U.S. farm prices (broken line) reveals both similarities and differences: farm prices of steers and heifers, and soybeans are very similar.

Table 7:--Selected Agricultural Profiles, , U.S.,
Canada, Ontario, Quebec, Michigan and New York,1985

	U.S.	Canada	Ontario	Quebec	Michigan	New York
POPULATION (millions)	236.2	25.4	9.1	6.6	9.1	17.7
NUMBER OF FARMS ('000)	2,241	318	82	48	63	48
TOTAL AREA ON FARMS ('000 acres) ..	1,016,000	162,815	14,923	9,339	11,400	9,500
VALUE OF LAND & BUILDING (\$ millions)	938,274	95,042	22,596	6,356	16,306	10,328
CROP PRODUCTION						
All Wheat ('000 bu.)	2,424,765	891,124	36,581	6,430	45,000	8,410
Oats	518,626	194,316	21,511	23,343	26,130	17,710
Grain Corn	8,865,006	294,167	228,400	61,021	286,650	68,400
Barley	589,183	571,461	34,666	23,883	2,584	na
Soybeans	2,098,531	38,500	38,500	na	34,560	na
Tobacco ('000 lbs.)	1,511,220	88,632	77,756	7,260	na	na
Dry Edible Beans ('000 cwt.) ..	22,268	1,290	1,290	na	5,412	297
Hay ('000 tons)	148,959	26,221	7,870	5,842	5,705	5,269
Apples (million lbs.)	7,949	1,048	403	202	1,100	1,120
Peaches	2,047	96	70	na	55	17
Grapes	11,164	169	139	na	102	292
Strawberries ('000 cwt.)	10,188	781	227	297	163	168
Asparagus ('000 cwt.)	2,136	68	46	14	230	na
Carrots	22,918	5,861	2,640	2,250	1,664	539
Lettuce	61,753	1,135	236	703	300	759
Onions	45,059	3,271	2,230	770	2,535	3,960
Tomatoes (fresh)	173,316	12,024	11,480	484	320	392
Potatoes	407,109	67,001	7,659	10,141	3,036	na
Mushrooms	5,880	906	450	na	202	21
LIVESTOCK & POULTRY ('000 head slaughter)						
Cattle & Calves	39,678	4,009	1,184	662	578	700
Hogs	84,492	14,131	3,971	5,091	5,061	83
Sheep & Lamb	6,165	335	135	72	296	52
Chicken	4,478,749	346,563	122,779	98,927	1,300	1,750
Turkey	185,282	17,002	6,731	4,598	2,300	314
Eggs (million)	68,193	5,854	2,338	945	1,519	1,710
Milk Produced ('000 hL)	583,112	72,529	24,606	28,397	23,145	49,011
FARM CASH RECEIPTS						
Total (\$ billion)	193.3	19.9	5.2	3.1	3.9	3.5
Crop	98.9	9.4	1.8	0.5	2.2	1.0
Livestock	94.4	9.8	3.3	2.2	1.6	2.4

na = Not applicable.

All values are in Canadian dollars. (See Appendix B for exchange rates.)

Source: Agricultural Statistics 1985 USDA

Statistical Abstract of the United States 1986, USDA

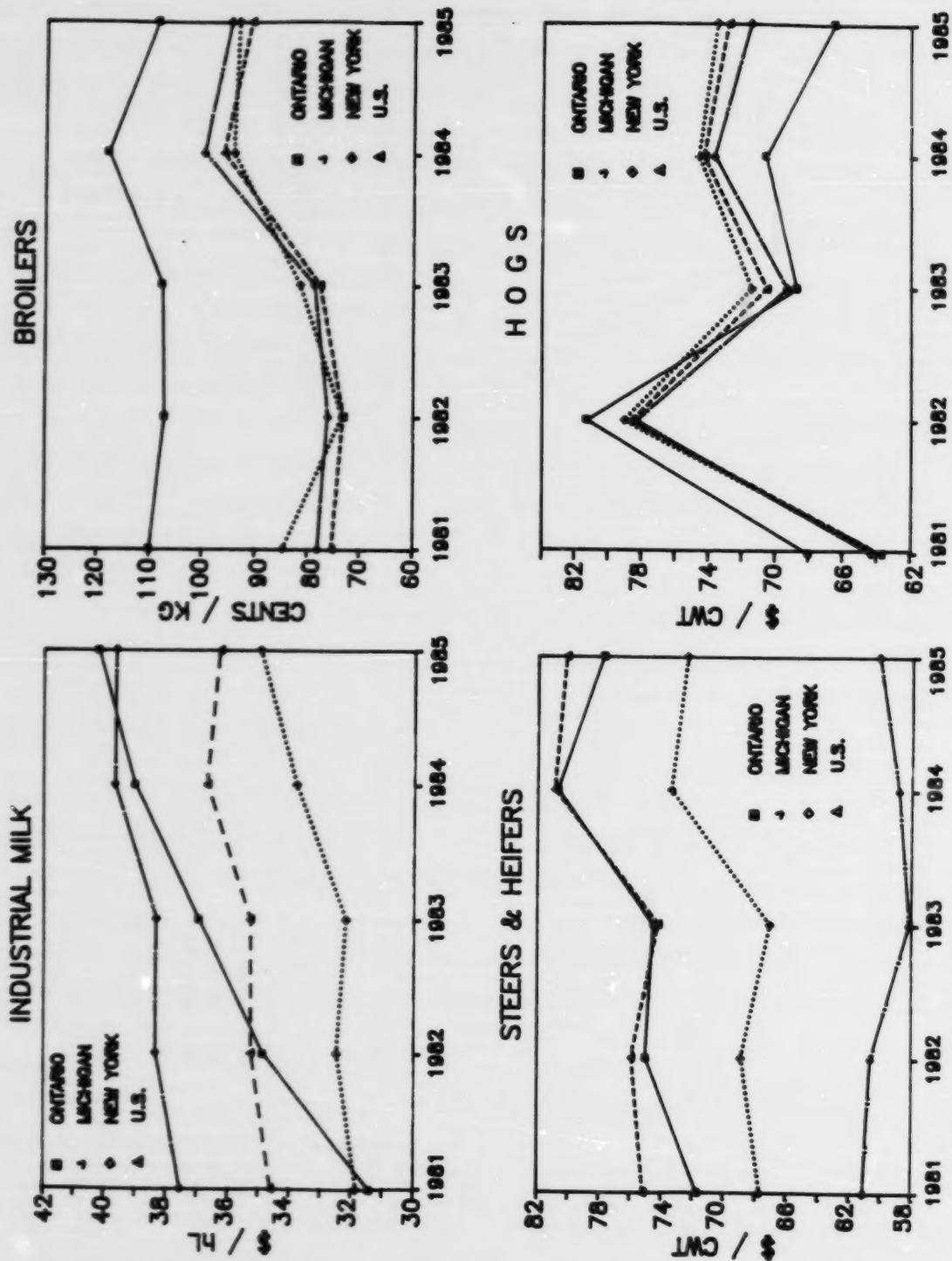
Crops, Noncitrus Fruits and Nuts & Vegetable Summary 1985

Livestock Slaughter Summary 1985, Poultry Production and Value 1985.

Agricultural Statistics for Ontario, 1985, Ontario Ministry of Agriculture and Food.

FIGURE 1A

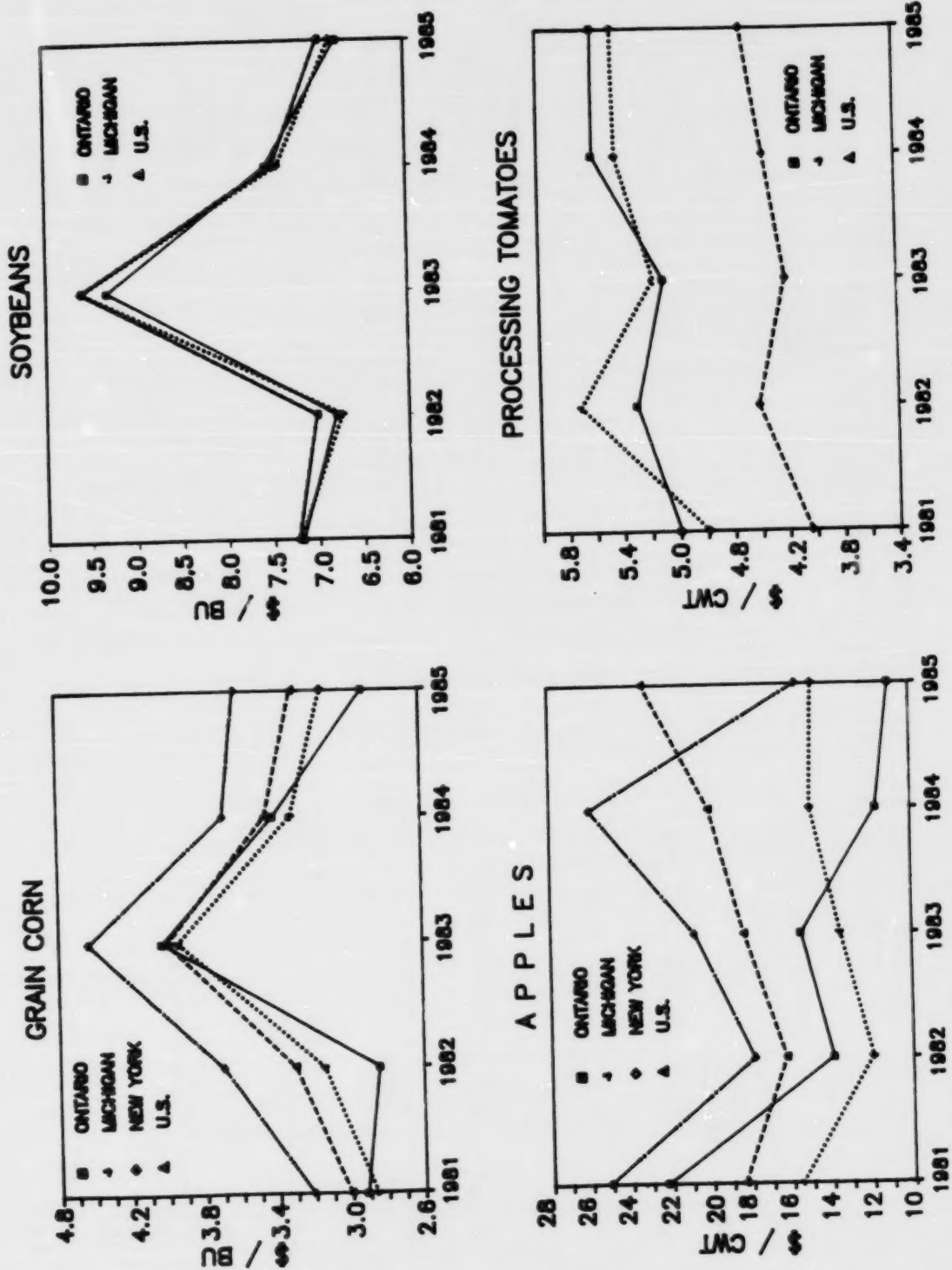
FARM PRICE FOR SELECTED COMMODITIES ONTARIO, MICHIGAN, NEW YORK, U.S. 1981-85



Source: Appendix B

FIGURE 1B

FARM PRICE FOR SELECTED COMMODITIES ONTARIO, MICHIGAN, NEW YORK, U.S. 1981-85



Source: Appendix B

Ontario's corn, hog, and apple prices have been lower than U.S. prices in recent years; and Ontario's, broiler, processing tomato and more recently, industrial milk prices have been higher than U.S. prices. The price comparison also shows that there are wide price differences between the border states and the U.S. average prices for certain commodities.

Government policies, transport costs, and product quality differences are the prime reasons for these regional U.S. price differences. U.S. industrial milk prices reflect the regulations controlling the movement of milk under federal milk market orders. The low slaughter cattle prices in New York and Michigan reflect the significant contribution made by the dairy herds to cattle slaughter. In relative terms, Ontario's beef feedlot industry is much larger than similar industries in Michigan and New York. This, combined with the fact that Ontario is a net importer of beef, explains the higher prices in Ontario. U.S. tomato processing prices are set by California, as a result the higher Michigan price reflects transport costs. Appendix B contains farm price tables for these and other commodities.

Over the last 30 years there has been a remarkable increase in agricultural productivity in Canada and the U.S. Animal and plant technological developments have occurred in terms of breeding, growth regulation, and disease control. Improvements in management practices and production and harvesting machinery have also contributed to increased agricultural productivity. The impact of technological innovation is illustrated by the expansion of corn production across Southern Ontario into Quebec and growth of canola production in the Prairie provinces. Ontario's farmers, particularly grain, oilseed and hog producers have kept pace with, or are in some cases ahead of technological innovations in the U.S. Canadian farmers have benefited from substantial technological innovations developed in the U.S. in addition to the large number of domestic innovations. However, it needs to be recognized that the technological lead held by North American agriculture, particularly grain and oilseed production, has been declining as a result of the research and extension efforts in developing countries and Europe (12).

For the most part, agricultural input costs in Canada and the U.S. are very similar. Chemicals, fertilizers, farm fuel and farm machinery are all priced on a North American basis. Prices tend to reflect transport costs and local market conditions.

Trade in Agriculture and Food Products

International trade exerts a strong influence on Ontario's agriculture and food sector. In 1985, Ontario's exports of agriculture and food commodities were valued at \$1.8 billion, while imports totalled \$2.9 billion. Exports constitute, for some industries, an important market outlet. For example, white beans, tobacco, whisky, and pork are all major exports. Some industries in Ontario face strong competition from foreign suppliers, particularly fruit and vegetable producers, while the dairy and poultry industries are protected.

Trade with the U.S. represents two-thirds of Ontario's agriculture and food imports and exports. The trade deficit is the result of the size of fruit and vegetable imports, which totalled \$667 million in 1985. However, that Ontario has a substantial trade surplus in alcoholic beverages with the U.S. Ontario's whisky exports alone were valued at \$236 million in 1985, representing over two-thirds of alcoholic beverage exports. Ontario's agricultural exports to the U.S. and imports from the U.S. for selected commodities are compared in Figure 3. Appendix C contains more detailed trade information.

The U.S. has been the largest growth market for Ontario's agricultural exports. Between 1980 and 1985, the proportion of agricultural exports destined to the U.S. has grown from 50 percent to 68 percent. Figure 2 shows that while agricultural exports to the U.S. have grown strongly, imports from the U.S. have increased only gradually. The net result has been that Ontario's agricultural trade deficit with the U.S. has shrunk.

In comparison, certain other provinces are running agriculture and food trade surpluses with the U.S., reflecting the substantial exports of certain commodities, such as potatoes from the Maritimes, and beef and cattle from Western Canada.

In 1985, Canadian agriculture and food exports to the U.S. were valued at \$2.9 billion, representing 31 percent of total exports. This reflects the relative importance of Prairie grain and oilseed exports to off-shore markets. Imports from the U.S. were valued at \$3.5 billion, accounting for 55 percent of total agriculture and food imports. In recent years, Canada's agricultural trade deficit with the U.S. has been shrinking, partly as a result of strong growth in Canadian livestock, meat, vegetables, and oilseed exports (Figure 4).

ONTARIO-U.S. AGRICULTURAL TRADE

FIGURE 2
AGRICULTURAL TRADE, 1980-1985

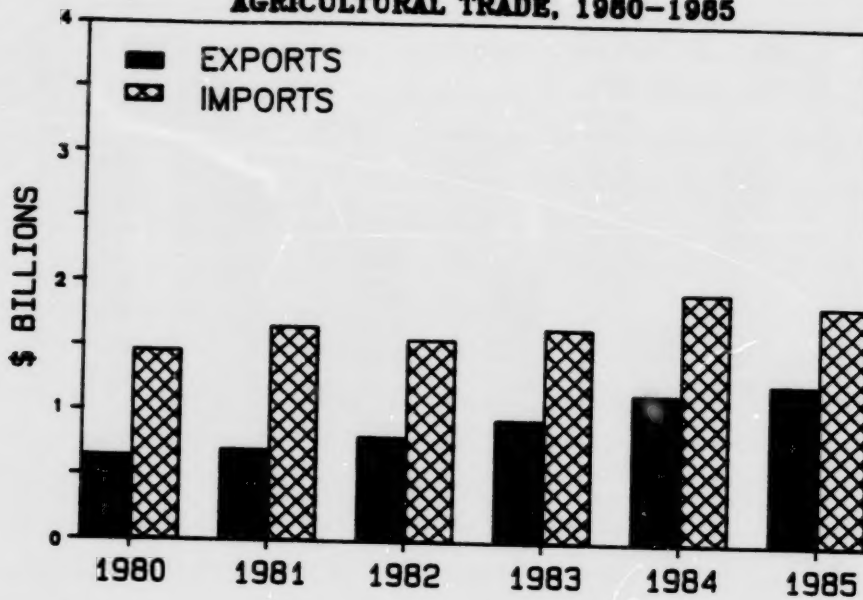
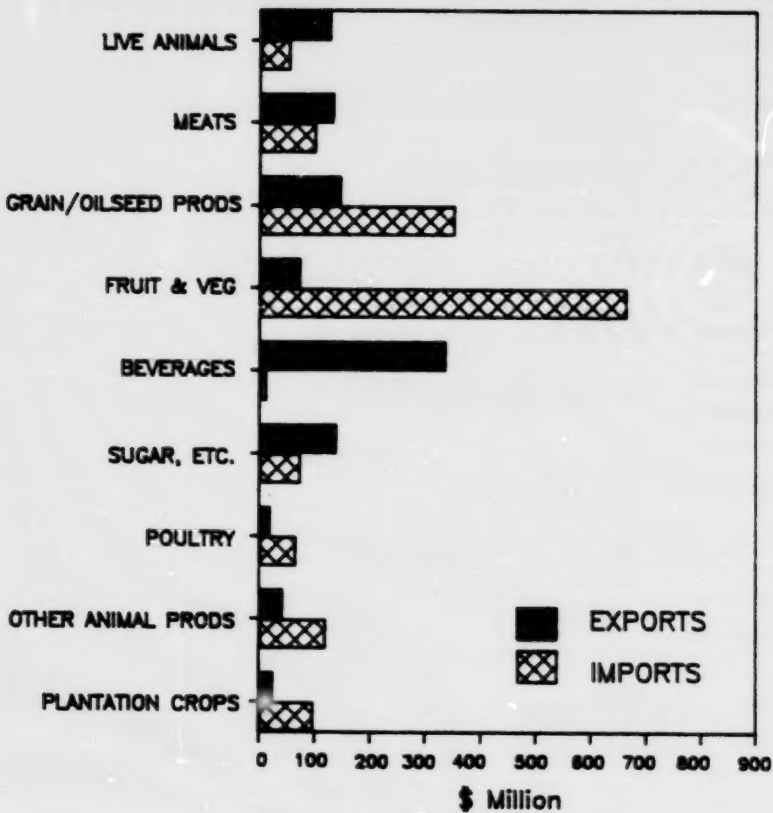


FIGURE 3
TRADE IN SELECTED AGRICULTURAL COMMODITIES, 1985



Statistics Canada

CANADA-U.S. AGRICULTURAL TRADE

FIGURE 4
AGRICULTURAL TRADE, 1980-1985

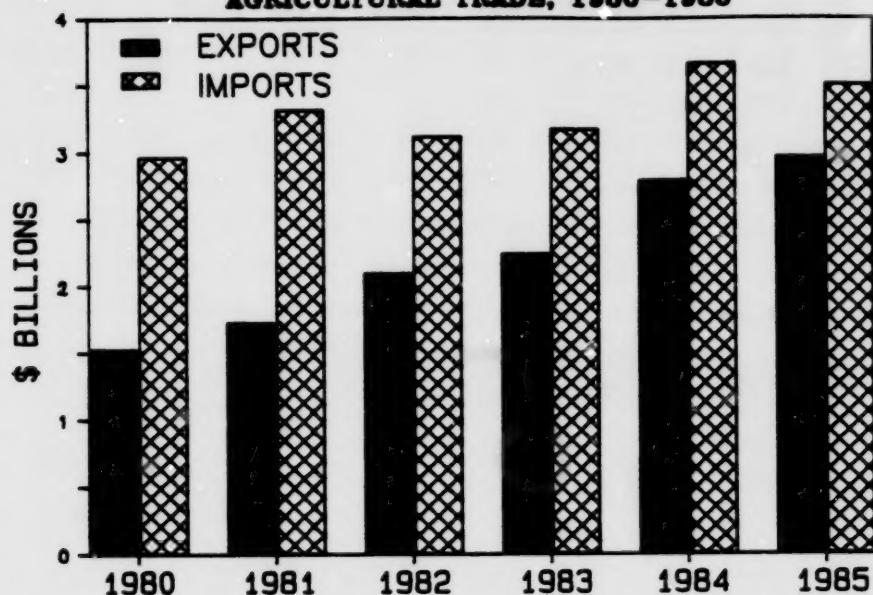
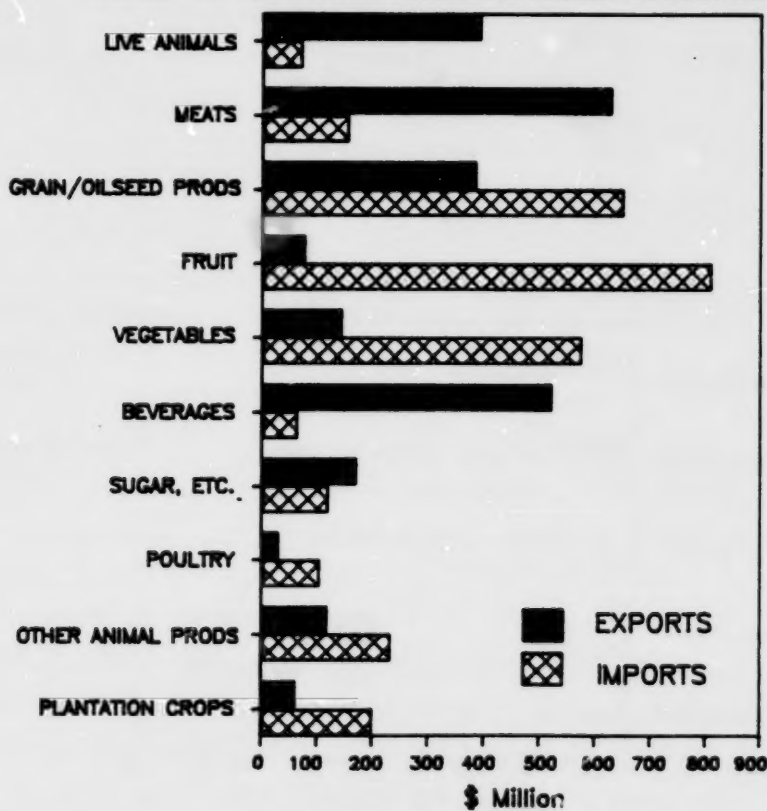


FIGURE 5
TRADE IN SELECTED AGRICULTURAL COMMODITIES, 1985



Statistics Canada

The balance of agricultural trade varies from commodity to commodity. In fact, for certain commodities, there is essentially no trade either way. Canada has a large trade surplus with the U.S. in terms of live animals, red meats, and alcoholic beverages, but is in a deficit position in terms of fruit and vegetables, poultry and eggs, oilseeds and related products (Figure 5). Appendix C contains detailed commodity information on Canada's and Ontario's trade with the U.S. The trade data covers the period 1980 to 1985.

Although the Canada-U.S. two-way trade in agriculture and food products is valued at \$6.5 billion, the relative importance of the trading relationship is not evenly balanced (Table 8). According to U.S. agricultural trade statistics in 1984-85, Canada accounted for 5.5 percent of U.S. exports and was the source of 10 percent of U.S. imports. This partly explains why U.S. agricultural interests have focused their attention on the multilateral trade negotiations, not the Canada-U.S. trade talks.

Table 8:--Agricultural Trade, Ontario, and Canada, 1984 and 1985
and U.S. 1983-84 and 1984-85

	Ontario		Canada		United States	
	1984	1985	1984	1985	1983-84	1984-85
- \$ million -						
Exports						
Total all Countries	1,856	1,840	10,978	9,503	48,135	42,144
U.S./Canada	1,166	1,254	2,797	2,974	2,451	2,334
U.S./Canada (% of total).	62.8	68.1	25.5	31.3	5.1	5.5
Imports						
Total all Countries	3,002	2,974	6,559	6,470	23,944	26,676
U.S./Canada	1,956	1,866	3,670	3,515	2,346	2,578
U.S./Canada (% of total).	65.2	62.7	55.9	54.3	9.8	9.7

Note: All values are in Cdn dollars. The definition of agricultural trade used by the USDA and OMAF is slightly different. It should also be noted that USDA trade statistics do not capture all exports of fruit and vegetables by truck shipments to Canada.

Source: Statistics Canada, External Trade Division. USDA Agricultural Trade Statistical Report.

COMMENT

Competitiveness is a dynamic condition. New technology, changes in consumer tastes, new sources of supply and new products are continuously altering the competitive relationships at both the farm and processing levels. Adapting to these changing conditions is an ongoing challenge. This review of the competitiveness of Ontario's agriculture and food sector has identified many similarities and differences in structure and performance. However, it is not possible to make definitive assessments on an industry by industry basis.

What is clear is that the province has the resources, infrastructure and ability to be, and to remain, competitive with U.S. producers and processors in the border states for many commodities. The maintenance of this competitiveness requires that Ontario's agriculture and food sector keep pace with ongoing technological innovations. The underlying competitiveness of many industries in Ontario's agriculture and food sector is illustrated by the fact that exports to the U.S. have been increasing faster than imports in recent years. It must be acknowledged that barriers erected in both countries, but particularly in Canada, to achieve legitimate domestic policy objectives have reduced the opportunities for competition in certain sectors. Retention of the extensive level of government involvement means that the negotiation of a trade agreement will be a complex and difficult undertaking.

The substantial level of U.S. government assistance to grain, dairy, tobacco, sugar, cotton producers and certain other commodity groups means that Canada is not without negotiating leverage in the bilateral trade talks. The fact that U.S. farmers themselves do not operate on a level playing field suggests that it is possible for Canada to retain its distinctive and effective agricultural policies.

VII. IMPACT OF THE TRADE NEGOTIATIONS

The Government of Canada initiated the trade negotiations with the U.S. at a time of growing U.S. protectionism, global overproduction of agricultural commodities, rapid technological innovation, and increasing government intervention in the agricultural sectors of both countries. These conditions have increased the complexity and difficulty in negotiating the reduction of agricultural trade barriers between the two countries.

The approach taken in this paper is to examine the possible impacts on Ontario's agriculture and food sector under the two extreme cases of no trade agreement (status quo scenario) and of a "free trade" agreement with the U.S. (free trade scenario). Through the assimilation of industry views and work undertaken by other analysts, an attempt is made to examine the impact on Ontario's agriculture and food sector under the status quo and free trade scenarios. Between the cases of no agreement and a "free trade" agreement lies a magnitude of possible arrangements that could be negotiated. It is intended that by discussing the two extremes, insights will be provided into the forces that will influence the direction of the trade negotiations. In each scenario, advantages and disadvantages for particular commodities and industries within the agriculture and food sector are identified.

THE STATUS QUO

The status quo scenario is based on the premise that the agriculture, food and beverage sector is excluded from the bilateral trade negotiations. In other words, trade barriers, assistance programs, regulations, standards and institutions remain as they are. A further assumption is made that the sector derives no benefits or incurs no costs directly related to a bilateral agreement for other sectors.

At first glance it might appear that Ontario's agriculture and food sector would more or less continue in its present state, maintaining current production and processing levels. On closer examination of ongoing trends, it soon becomes apparent that the status quo cannot be maintained. A myriad of competitive pressures, North American and global, are causing the fortunes of some regions,

commodities, firms and industries to "ebb and flow" in response to changing consumer needs, an aging population, new technologies and processes, government policies, multilateral trade negotiations and macroeconomic forces (e.g. exchange rates, inflation rates, and interest rates). In effect, with or without freer bilateral trade, the face of the agriculture, food and beverage sector is changing. Technological innovations during the next decade are expected to continue to influence the farm and processing sectors. Milk production is one area that is expected to experience large productivity gains. In recent years changing consumer tastes and other competitive pressures have led to a significant decline in fruit and vegetable processing firms and meat packers in Ontario. Likewise, a mature market with low population growth has limited growth opportunities in the food and beverage sector which has slowed investment, encouraged rationalization, consolidation, diversification and mergers.

Conversely, the expansion of production in a broad range of products, including grains, oilseeds, chicken, and specialty crops (e.g. greenhouse cucumbers) has fostered new investments in processing capacity, creating employment and other economic spin-offs. Other examples include hogs and some food processing products (e.g. frozen dinners) where Ontario has emerged with a competitive edge to exploit domestic and export opportunities.

Naturally, these developments have required a substantial infusion of risk capital for investment in plants, equipment and marketing. In the past, the agriculture and food sector has had access to the financial resources necessary to develop. However, other non-agricultural sectors compete for the available pool of capital as well. If for reasons of "free trade" in other sectors or diminished prospects in agriculture, returns are more promising in other sectors, then the agriculture, food and beverage sector's access to investment funds will be limited. This by itself may largely determine the long-term competitiveness and viability of the sector.

In recent years, the growing protectionist mood in the U.S. has hurt certain Canadian exports and poses a potential threat to others. U.S. producers have been successful in obtaining countervailing duties imposed on Canadian live hogs and raspberries and most recently, preliminary duties on cut flowers. Certain

U.S. producers would like to see protectionist measures taken against pork, potatoes, beef, beef cattle, and certain vegetables. This poses a serious threat, since livestock farm cash receipts alone represent 30 percent of Ontario's farm cash receipts. As a result, U.S. protectionist acts have the potential to have a devastating effect on a major proportion of Ontario's farm and food processing sector. This U.S. protectionist threat is one of the key justifications used by the Government of Canada in seeking to negotiate a new trade arrangement with the U.S. These concerns should not be dismissed lightly. However, the question can be asked whether a comprehensive trade agreement is the best way of dealing with the protectionism in the U.S.

In September 1986, agreement was reached to launch a new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade. The first agreement has been reached to negotiate agricultural subsidies on a comprehensive basis. This is an important first step as it may result in the de-escalation of the agricultural subsidy wars currently disrupting and damaging world markets. If world agricultural commodity trade is to become more market oriented, then the EC, U.S. Japan and other countries, including Canada will have to be prepared to alter trade distorting policies.

World agricultural markets are expected to remain extremely competitive during the next few decades. Supplies of agricultural commodities on world markets are likely to exceed effective demand, unless income levels in developing countries improve markedly. Even if progress is made through the MTNs to control the level of government subsidies, the adoption of more advanced technologies in third world countries and development of new innovative technologies will mean the world's potential production capacity will continue to expand.

The status quo option does not provide any guarantees for Ontario's farmers and processors, as it is subject to forces beyond the control of individuals and governments. A strong case can be made that changes in technology, consumer demands, and macroeconomic forces will have a far stronger influence on Ontario's agriculture and food sector than government policies.

IMPACT OF FREE TRADE

Free trade may be strictly defined as trade unhindered by government-imposed tariff and non-tariff barriers to trade. Strictly following this definition would require the termination of all government activities from direct export subsidies to discriminatory health standards. The elimination of all trade barriers is not a realistic option. For the purpose of this analysis, free trade is defined as the elimination of the principal barriers to trade between Canada and the U.S., and the harmonization of benefits from government policy in both countries. As a result of the larger size of the U.S., it is assumed that Canadian policies are modified to match U.S. policies, provided this involves a reduction of trade barriers. (This is not a likely scenario as it assumes away Canada's ability to negotiate more favourable terms. But the scenario is used to emphasize the potential impacts of the negotiations.)

Free trade will impact on Ontario's agricultural sector in a variety of ways. The factors influenced include: price (outputs and inputs), consumer demand, supply, trade flows, investment, employment and profitability. Changes in relative profitability of one product against another will result in resources being transferred between commodities within agriculture and with other sectors of the economy. Many factors influence the impact of free trade, which means the analysis required is very difficult. As a result, it was decided to provide a preliminary assessment of the impact of free trade on a commodity and sector basis. Furthermore, estimates of the short-term impact of free trade on the farm and processing sectors are also provided. This analysis allows the adjustment pressures faced by various commodities to be compared. This analysis draws heavily upon the work of other analysts and industry groups.

Dairy

The complexity of dairy policies in Canada and the U.S. requires specific assumptions to be made about policy harmonization under bilateral free trade. The assumptions made for this analysis are:

1. Supply-management for fluid and industrial milk is terminated in Canada. U.S. Milk Marketing Orders are terminated in the U.S.
2. Elimination of fluid milk price premiums in Canada and the U.S.

3. Elimination of the Government of Canada's direct subsidy payment of \$6.03 per hectolitre of industrial milk.
4. Adoption of U.S. support prices for the Canadian Dairy Commission's Offer-to-Purchase Program for butter and skim milk powder.
5. Elimination of Canadian producer levies used to finance the disposal of surplus dairy products.
6. Canadian and U.S. import controls on imports from third countries would be retained and harmonized.

Under these circumstances, Canada-U.S. free trade would set in motion a fundamental readjustment of the dairy industries in Canada, Ontario and the U.S. Fluid and industrial milk prices in Canada would likely decline to the level of bordering U.S. state industrial milk prices. Ontario fluid milk prices and industrial milk prices would likely decline by 25 and 10 percent, respectively. Producers with a large proportion of fluid milk quota would face the greatest loss of revenue. U.S. milk producers would also face a decline in the fluid price of around 15 percent.

Milk quota would no longer be a valued asset. The current milk quota held by producers in Ontario is valued at between \$800 to \$1,000 million for fluid milk and between \$1,100 to \$1,300 million for industrial. Quota for fluid and industrial milk in Canada is worth between \$5,100 to \$6,200 million. In addition, dairy farmers would also likely face declines in the land values of their operations.

The decline in milk prices and the loss in asset values would cause less efficient dairy producers to leave the industry. It is likely that the dairy industry in Northern Ontario would no longer be viable. At the same time, other dairy producers would likely expand their operations to reduce costs. On the basis of structure of the dairy industry in the bordering U.S. states, the number of dairy (milk and cream) producers is assumed to decline from 12,000 to between 9,000 and 8,000, while the average size of dairy herds would increase by over 30 percent. On balance, milk production in Ontario would likely remain close to current levels, given the availability of competitively priced feed and the excellent management skills of Ontario's dairy farmers.

Ontario's dairy processing firms would also face a great deal of pressure to rationalize. Dairy processors like milk producers would also face a decline in assets as a result of the elimination of plant supply quotas, fluid milk distribution licences, and import licences. These adjustments would be necessary to prevent U.S. processors from gaining market share. Small and old, inefficient dairy processing firms with no location advantages would likely be forced out of business.

The final impact of free trade on dairy producers and processors in Ontario depends to a large extent on the length of the phase-in period and type of adjustments that are a necessary part of any trade arrangement. Although the adjustment process could be eased for producers through long phase-in periods and assistance, free trade represents a radical reorientation of the Ontario dairy industry.

The likelihood that the U.S. dairy industry would experience similar rationalization problems resulting from the elimination of milk marketing orders means that the Canadian negotiators have significant bargaining power in this area.

Poultry

Free trade between Canada and the U.S. is assumed to require the elimination of the supply-management schemes for chicken, turkey and eggs. Furthermore, it is assumed that no other long-term assistance programs would be implemented, since the U.S. poultry and egg sector operates without direct government assistance.

The elimination of the supply-management system would cause major readjustments to occur in the poultry and egg industries. Without border restrictions, poultry and egg prices would decline to U.S. levels. Producer prices in Ontario are expected to decline by 25-30 percent for chicken, 20-25 percent for turkey, and 10-15 percent for eggs. Along with the general decline in prices, producers would also have to adjust to an increase in price variability. U.S. poultry prices are subject to a price cycle reflecting imbalances in supply and demand.

Poultry marketing quota would no longer be of value. This means that poultry and egg producers in Ontario would lose around \$500 to \$800 million in the asset value of quota.

One of the major adjustments expected to occur is that many family run operations would be replaced by larger, vertically-integrated operations possibly owned by large feed companies. As a result of large price declines, the broiler industry would likely experience greater rationalization than either the turkey or egg sector. This has already occurred in the U.S. Vertically-integrated operations are better able to manage the variability in feed costs, output prices, and profitability associated with the unregulated marketing of poultry.

Ontario's poultry and egg industry has the capacity to make some of the necessary adjustments. Ontario producers have the necessary management skills, and technology, as well as access to a large urban market, and the advantage of lower feed costs. The adjustment process would likely lead to many producers leaving the industry and the emergence of large, integrated operations. Conversely, it would seem that small family-run poultry operations would no longer be viable independent businesses, unless they focused on specific market demands for brown eggs, fresh birds and free-range poultry and eggs. Another possibility is for small operations to be run on a contract basis as is the case in the U.S.

Ontario's further processing industry would benefit from lower raw product costs and increased consumer demand. However, the industry would then have to compete with larger, low-cost U.S. firms. The impact of free trade on the poultry and egg sector depends on the reaction of producers and processors. To ease the costly adjustments and financial stress caused by dismantling supply-management, a long phase-in period and significant government adjustment assistance would be required to allow the industry to compete with U.S. suppliers.

Livestock and Meat

Canada's red meat industry already operates on a continental basis within the North American market. Tariffs are low, except for a few exceptions such as high-quality beef cuts, and non-tariff barriers to trade are small. However, it is necessary to make a number of assumptions about the further reduction of trade

barriers. These assumptions are:

1. Elimination of tariffs on beef and cattle.
2. Agreement is reached to exclude each other from the import controls under the respective Meat Import Acts and to harmonize these controls.
3. Health restrictions on livestock trade are eased without endangering the health of each country's livestock herds.
4. Agreement is reached on defining acceptable non-trade distorting subsidies. Countervailing duties and the threat of new countervail actions are eliminated in respect of acceptable assistance programs, which could include modest income stabilization programs.
5. Agreement is reached on fairer and more predictable contingency protection laws. For example, a stricter injury test developed, a higher subsidy threshold established, and account taken of offsetting subsidies in other countries.

The impact of free trade on the cattle, hog and lamb industries is expected to be minimal. Producer prices are expected to increase only slightly. Western beef producers will likely experience the largest price benefits from elimination of tariffs and border inspection problems. The major benefit to beef and pork producers will be from more secure access (i.e. exemptions from the U.S. import laws and U.S. countervail actions), rather than enhanced access. More secure access will allow all producers and packers, in Alberta in particular, to undertake investments and develop new markets in the U.S. with greater confidence. This is also true for Ontario, but to a lesser extent.

Grains and Oilseeds

Canada-U.S. trade in grains and oilseeds is very small in comparison to offshore markets. Producer prices received in both countries are largely determined on the world market. There are significant differences in U.S. and Canadian policies concerning grains and oilseeds. However, in recent years, governments in both countries have provided substantial subsidies to grain producers.

It is assumed that Canadian policies are harmonized to the U.S. system. As a result, transportation assistance and stabilization payments would be modified so that benefits were equivalent to those under the U.S. price support system. It is assumed the Canadian Wheat Board and the Ontario Wheat Producers Marketing Board are retained. It is likely that once differences in policy approaches are harmonized, Canada and U.S. trade in wheat, feedgrains and oilseeds will remain

small. The basic fact is that Canadian and U.S. grain and oilseed growers will remain dependent on overseas markets for grain and oilseeds exports and therefore changes to bilateral trade barriers will only have a small effect. However, the dominant influence of U.S. production on world grain and oilseed prices means that Canada has much to gain from a reduction in U.S. subsidy payments.

The end of Canada's two-price wheat system will reduce Ontario's average wheat price from the marketplace by at least 20 percent. Ontario wheat producers will no longer be able to obtain higher prices from domestic sales.

Ontario wheat millers would, therefore, benefit from cheaper raw input costs. Ontario wheat producers would likely reduce production in response to lower prices. Land would likely be devoted to growing other crops.

Ontario soybean crushers would face increased competition from U.S. crushers as a result of the reduction of Canadian tariffs on refined oil of 15 percent and crude oil of 7.5 percent. However, the elimination of the tariffs may have only a minimal price impact. As a result of federal transport assistance, western canola has been displacing soyabean oil in the Ontario market for years. The elimination of the import ban on margarine may also reduce soyabean prices and thereby provide consumers with an additional price incentive to substitute margarine for butter, placing further competitive pressure on the Canadian (and Ontario) dairy sector.

Horticulture

The horticultural industry includes growers of fruit, vegetables, flowers and ornamental plants. It is an extremely diverse industry with hundreds of distinct commodities being produced using different production methods. Free trade for the horticultural industry is assumed to mean the elimination of all tariffs, technical barriers to trade (e.g. the bulk container regulations and consignment selling). Federal/provincial income stabilization and development programs would be terminated or modified through the Canada-U.S. harmonization process. It is estimated free trade would also mean that the powers of provincial marketing boards to set or negotiate prices with processors would become limited.

In general, free trade would have an adverse impact on the horticultural industry. The loss of tariff protection would reduce producer prices of many commodities. The elimination of the federal ban on bulk container and consignment selling would increase market instability, particularly for apple, potato, and processing tomato growers. The loss of these regulations that help to ensure orderly marketing, would increase production risks for producers by allowing larger price variations to occur. One result of this reduction in profitability would be to reduce the value of land producing these crops, thereby lowering the cost structure of the primary industry. The adjustment of land values would improve the competitive position of these commodities in the long term, but would significantly increase the financial stress already felt by these growers.

The commodities in Ontario that would face the largest negative impacts from free trade are fruit and vegetable (e.g. tomatoes, peaches and grapes), and certain greenhouse commodities (e.g. tomatoes). The price declines for growers would range from 10 to 30 percent for fruit and vegetables for processing. Ontario fruit and vegetable processors would likely face significant pressure to rationalize. This would result in an increase in plant closures, and loss of jobs in the processing sector. The Canadian Food Processors Association estimated that 20 plants will be closed and 3,000 full time jobs lost (13).

Alternatively, a number of vegetable processors might benefit. For example, frozen corn processors may exploit opportunities from lower tariffs to increase exports to the U.S. The negative price impact for fresh fruit and vegetables is more difficult to predict, but it is likely to be less than that for growers of fruit and vegetables for processing. A preliminary comparison of commodity prices for fresh peaches and strawberries suggests that the seasonal tariffs may not be raising prices significantly to Ontario growers (Appendix B). It is possible that importer may prefer to spread the cost of the seasonal tariffs across imports throughout the year and not pass the full tariff cost to Canadian buyers when competing with Canadian produce during the generally short Canadian marketing season. This needs to be investigated.

Parts of Ontario's fruit and vegetable industry would benefit from free trade. Vegetable producers with storable products are expected to benefit from the removal of tariffs, particularly onion and carrot producers. The removal of U.S. tariffs may provide opportunities for Ontario mushroom and cole crop growers.

Flower and ornamental plant producers are not expected to be adversely affected by free trade. However, the loss of tariff protection may have a slight price-depressing impact. It is anticipated the removal of U.S. tariffs would allow growers to further expand these exports to the United States.

Other Commodities

The other commodities of concern to Ontario include tobacco, sugar, maple products, honey and white beans. Free trade with the U.S. would impact on each of these commodities in different ways. The U.S. tobacco and sugar support programs make the analysis of free trade extremely difficult. It appears likely that the U.S. will not be willing to modify these programs to allow open access to Canadian produced sugar and tobacco. If this is the case, then Canada will have negotiating leverage to maintain some of its own important agricultural programs in other commodities. Canada has a strong negotiating position in regard to sugar because it does not support its sugar beet industry to any significant degree; while the U.S. supports its sugar beet and sugarcane producers by maintaining minimum support prices, well above world levels.

Under the situation where the U.S. dismantled its tobacco and sugar support program and trade barriers, Canadian producers are unlikely to benefit. Currently, the U.S. and Canada are high cost producers compared to overseas producers.

In terms of the sugar industries, the decision to end the U.S. sugar support program would have damaging consequences for Ontario sugar refiners and producers of high fructose corn syrup (HFCS). Canadian sugar refiners currently profit from holding U.S. sugar import quotas. Similarly, the HFCS industry benefits from the high price sugar supports in the U.S. Currently, Canadian honey producers indirectly benefit from the U.S. honey support program.

The alternative of the U.S. retaining its sugar and tobacco support programs and eliminating tariff and non-tariff barriers is not a plausible option. The cost of allowing Canada open access to these U.S. support programs would be extremely costly to the U.S. Treasury.

Agricultural Commodity Overview

The earlier commodity analysis suggests that free trade will lead to large losses and only small gains for many of Canada's and Ontario's agricultural commodity sub-sectors. To gauge the impact of free trade on the whole of Ontario's agricultural sector, actual farm cash receipts and expenses in 1985 are compared to farm cash receipts and expenses under the assumption of free trade. Free trade is defined as trade unhindered by government-imposed tariff, non-tariff barriers, regulations and trade-distorting assistance programs. Under this assumption, trade barriers are eliminated and direct government payments to farmers are ended as are national regulatory regimes. It is also assumed that under free trade the production levels for each commodity remain at the same level as in 1985. In other words, actual farm cash receipts of producers in 1985 are compared with farm cash receipts if Ontario's producers had received U.S. prices for their commodities and paid U.S. prices for their inputs, and received no direct government payments.

This comparison can be treated as a "worst possible" case as it does not allow producers to alter production decisions to reflect changes in the relative profitability of agricultural activities. It is these changes in production decisions in response to changes in product prices, land values, and other costs that would help to ameliorate the adverse impact of free trade. It is also possible that Canada and the U.S. could reach agreement on what are acceptable subsidies. This would allow the assumption of no direct payments to be relaxed.

The "free trade" assumptions made above serve a useful but limited purpose of allowing comparisons to be made between commodities and a judgment to be made on the relative significance of the potential adverse impacts of free trade to the agriculture and food sector.

Under these free trade assumptions, Ontario farm market cash receipts (i.e. excludes direct government payments) would have been \$4,711 million, down \$360 million or 7 percent from the actual commodity farm cash receipts in 1985 (Table 9). It should be noted that commodity farm cash receipts would have declined by \$170 million for dairy farmers and \$127 million for poultry and egg

producers. These declines in revenue indicate the pressure for adjustment that would be unleashed. It is interesting to note that under similar "free trade" assumptions, Canadian farm cash receipts from the marketplace would decline by 4 percent.

Table 9: Impact of Free Trade on Commodity Farm Market Cash Receipts, Ontario and Canada, 1985

	Ontario FMCR			Canada FMCR		
	Actual	Free Trade	Change	Actual	Free Trade	Change
- \$ million -						
Dairy	942	772	-170	2,731	2,239	-492
Poultry and Eggs	524	397	-127	1,410	1,057	-353
Red Meats	1,740	1,757	+17	5,440	5,603	+163
Grains & Oilseeds	787	763	-24	6,102	6,102	0
Fruit & Vegetables	460	405	-55	1,089	980	-109
Floriculture & Nursery ...	236	236	0	412	412	0
Tobacco	118	118	0	160	160	0
Other Commodities	264	264	0	770	770	0
TOTAL	5,071	4,711	-360	18,114	17,323	-791

Note: Farm market cash receipt assumptions under free trade:

- The change in the commodity of farm cash receipts under free trade is a result of the decline in output prices to U.S. levels. The assumption is made that the production levels are unchanged under free trade.
- Output price changes: dairy down 18%; poultry and eggs down 25%; red meat up 1% for Ontario and up 3% for Canada; grains and oilseeds down 3% for Ontario, unchanged for Canada; fruit and vegetables down 12% for Ontario and down 10% for Canada; floriculture and nursery unchanged, tobacco unchanged, and unchanged for other commodities.

Source: Farm Cash Receipts for 1985, Statistics Canada, Cat. 21-202.

Table 10 indicates that under the assumption that direct government payments to farmers are ended, Ontario's farm income would have declined by a further \$251 million in 1985. The loss of direct government payments would have had an even more dramatic impact on Canadian farmers who would have lost \$1,889 million in direct government payments. It should be noted that the trade negotiations agreement on acceptable subsidies could allow for some direct payments to be made (e.g. stabilization and crop insurance).

Table 10:--Net Government Payments, Direct to Farmers,
Ontario and Canada, 1985

	Ontario	Canada
	- \$ million -	
Federal		
Dairy Supplementary Payments	90	282
Western Grain Stabilization	0	484
Deficiency Payments	4	16
Crop Insurance	12	401
Fuel Subsidies	19	58
Provincial		
Provincial Income Stabilization	3	196
Supplementary Payments	0	114
Farm Tax Reduction Program	102	138
Interest Subsidies	21	165
Fertilizer Subsidies	0	18
Lime Subsidies	0	1
Feed/Pesticide Subsidies	0	16
GRAND TOTAL	251	1,889

Note: For 1986, a Special Canada Grains Program will provide approximately \$1.0 billion to eligible Canadian grain farmers, of which about \$120 million may be transferred to eligible Ontario producers. Other federal and provincial programs will also have to be incorporated into expenditure estimates for 1986 and 1987.

Source: Statistics Canada, Cat. No. 21-202.

It should be noted that in 1987, the declines in commodity farm cash receipts from the marketplace are relatively small, but when combined with the loss of direct government payments become extremely significant. This is illustrated by the impact on realized net income. Table 11 shows Ontario's realized net income would have been \$511 million under free trade, compared to the actual \$1,025 million of realized net income in 1985.

In the long term, farmers could respond to these adjustment pressures by changing production decisions, management practices, and by reallocating capital and labour resources. At the provincial level the general decline in the overall profitability of the agricultural sector would likely cause the downsizing of sensitive industries, particularly in terms of number of producers.

Table 11:—Impact of Free Trade on Realized Net Income,
Ontario, and Canada, 1985

	Ontario			Canada		
	Actual	Free Trade	Change	Actual	Free Trade	Change
- \$ million -						
Farm Market Receipts ^a ...	5,071	4,711	-360	18,114	17,323	-791
Income-in-Kind	66	61	-5	252	234	-18
Direct Gov't Payments ..	251	0	-251	1,889	0	-1,889
Realized Gross Income ..	5,388	4,772	-616	20,255	17,557	-2,698
Operating ^b &						
Dep. Charges	4,363	4,261	-102	16,619	16,403	-216
Realized Net Income	1,025	511	-514	3,636	1,154	-2,482

^a Free trade farm cash receipt assumptions see Table 9.

^b It is assumed that labour costs and input costs decline by 2% under free trade, as a result of improved productivity and reduced trade barriers.

Source: Tables 9 and 10, and Statistics Canada, Cat. No. 21-202.

Food, Beverage, and Tobacco Processing

Free trade with the U.S. would have an uneven impact on Ontario's food, beverage, and tobacco processors. The industries that are already operating on a North American basis such as meat packers would face the least adjustment pressures. Those industries insulated from competition from foreign suppliers such as dairy processors, poultry processors, wineries and breweries are likely to face the most significant pressures in adjusting to "free trade".

Ontario food and beverage processors would initially feel the impact of free trade through changes in input costs and output price changes. In turn, Ontario processors would attempt to adapt to the new market conditions, through changing production and marketing practices. Firms would likely attempt to increase the size of operations and introduce other productivity increasing/cost reducing measures, in an attempt to retain market share or increase exports to the U.S. At the other extreme, processors could choose to close down operations that could not compete in the North American market. In the longer term, changes in the size of the agriculture and food sector would depend on production and marketing adjustments made by farmers and processors.

Currently, dairy processors and poultry slaughterers benefit from the supply-management schemes developed primarily for farmers. These processors benefit from the assured supply of raw material and restrictions on product imports. Free trade would require major rationalizations if these processing industries are to compete with the larger, low-cost processors in the United States. In the long term, a significant number of plant closures, and job losses would likely occur. As is the case at the farm level, dairy processing plants in Northern Ontario would likely be forced to close. Similar concerns about the adverse affects of free trade can be raised about segments of the fruit and vegetable, canning and freezing operations that are currently protected by Canadian tariffs and certain orderly marketing regulations.

Although many food and beverage processors would face serious rationalization problems, a number of processing sub-sectors would benefit. Red meat packers would benefit from secure access to the U.S., particularly pork packers in Ontario. With secure access to the U.S., hog packers in Ontario may be more inclined to make investments to improve the productivity of packing and processing plants. Still the potential benefits from free trade may be overshadowed by other factors. The North American market is currently undergoing significant structural developments, for example, consumer tastes have shifted away from red meat to chicken. Furthermore, technological innovations could exert a much stronger influence on packing plant investment decisions than further liberalization of trade in pork between Canada and the U.S.

The alcoholic beverage sector includes wineries, breweries and distilleries. Under free trade it is assumed that the preference given to domestic alcoholic beverages by the provincial liquor boards would be ended. Furthermore, tariffs would be eliminated.

Free trade would have an extremely adverse impact on wineries. Ontario wineries would have great difficulty in competing against the larger Californian wineries, which have access to much cheaper and higher quality grapes. It is likely that many of Ontario's 18 wineries would be forced to close. The decline in the number of wineries would likely cause a major decline in grape production.

Rationalization of the Canadian brewing industry would be far reaching. Brewers would likely close the high cost plants in the less populated provinces. The brewers would also face strong competition in the large urban centres from U.S. brewers, which currently are operating well below capacity. The Brewers Association of Canada believes that the 39 regional brewers in Canada would be replaced by 12 large volume producers (13). Furthermore, employment would decline from 8,000 to 5,000. The Association estimates that in 1984, \$2 billion of adjustment assistance would have been required to rationalize the industry.

In contrast to the wineries and breweries, the distillers are expected to benefit modestly from free trade with the United States. The industry in Canada is well established. It has a good quality reputation around the world and has world-scale plants. The industry currently has excess capacity and would benefit from enhanced access to the U.S. For example, the elimination of the tariff on Canadian whisky, liqueurs, and rum will provide gains to Canada. However, Canadian distillers may lose market share to imports of U.S. vodka and gin.

It is unclear how Ontario tobacco manufacturers will be affected by free trade with the U.S. The decisions will be made by the three or four large multinationals that control Ontario's industry. It is not expected that free trade would result in any significant changes. The multinationals will likely find retaining manufacturing facilities and jobs in Ontario useful in combatting the political lobbying of the anti-smoking groups.

The reaction of U.S. firms with operations in Canada represents another unknown in the free trade impact equation. U.S. owned firms may decide to phase out Canadian operations and serve the Canadian market directly from their U.S. plants. U.S. firms may decide to concentrate operations in the U.S. to take advantage of higher labour productivity and low input costs or even the new tax regime in the United States. Furthermore, concern that U.S. corporations with operations in both countries may make rationalization decisions on the basis of patriotism, not profitability, cannot be dismissed out of hand.

A short-term assessment of the impact of free trade is now made by assuming that Ontario processors face the same input costs for agricultural commodities and output prices as U.S. processors did in 1984. A second assumption is made

that processors purchase the same quantity of agricultural commodities and produce the same quantity of processed products. The short-term impact of free trade on Ontario's processors is examined in terms of the value of shipments, value added, and material costs. The value added (sales minus costs) component reflects the contribution made by the processor to the final value of the product. The change in value added can be viewed as an indicator of the adjustment pressures unleashed by free trade on the processor.

The short-term assessment on an industry by industry basis using data for 1984 (the latest available) is presented in Table 12. This impact analysis suggests that the poultry and dairy processors will likely face the largest adjustment pressures because of the smaller-sized operations and lower productivity in Ontario, compared to the U.S. Poultry processors face the largest relative decline in value added of 35 percent from \$138 million to \$90 million. The largest absolute decline in value added would be felt by dairy processors of \$411 million to \$322 million or 22 percent. The other industries that would come under adjustment pressures are fruit and vegetable processors, breweries and wineries. In the case of fruit and vegetable processors, value added is assumed to decline from \$555 million to \$503 million. It is also expected that breweries and wineries would face substantial declines in value added. However, because of the complexity of the regulations affecting this industry, no estimates on the impact on these industries were made. Since 1984, the two-price wheat policy has progressively placed bakeries, biscuit manufacturers, and flour and breakfast cereal manufacturers at a disadvantage with respect to U.S. manufacturers.

The adverse impacts of free trade on selected commodity processors and processors jointly has to be taken into account when developing phase-in periods and adjustment assistance programs. It will be important that differences in the adjustment problems faced by farmers and food processors be identified and addressed through assistance and phase-in provisions. Failure to acknowledge the linkages between farm and food processing may have serious consequences for the competitiveness of the food sector.

Table 12:--Impact of Free Trade on Ontario's Food, Beverage and Tobacco Processing Industries, 1984

Industry	Actual		Free Trade		Change				
	Sales Value	Cost	Sales Value	Cost	Sales Value	Cost			
	Value Added	(MSFE)	Value Added	(MSFE)	Value Added	(MSFE)			
	- \$ million -			- percent -					
Meat packers	2,662	590	2,079	2,689	590	2,099	1	--	1
Poultry processors	586	138	442	410	90	332	-28	-35	-25
Fruit & vegetable proc. ..	1,236	555	708	1,183	503	680	-4	-9	-4
Dairy products ind.	1,978	411	1,605	1,681	322	1,359	-15	-22	-15
Flour & break. cereal ind.	703	269	434	633	277	356	-10	+3	-18
Feed industry	904	218	687	904	218	687	--	--	--
Biscuit manufacturers	256	134	124	243	130	113	-5	-3	-9
Bakeries	495	257	239	470	260	210	-5	+1	-12
Confectionery	505	277	227	505	277	227	--	--	--
Cane & beet sugar	n/a	n/a	n/a	- no impact -		n/a	n/a	n/a	n/a
Vegetable oil mills	417	28	384	417	28	384	--	--	--
Soft drinks	647	293	357	647	293	357	--	--	--
Distilleries	485	305	181	n/e	n/e	n/e	n/e	n/e	n/e
Breweries	771	586	185	n/e	n/e	n/e	n/e	n/e	n/e
Wineries	101	54	45	n/e	n/e	n/e	n/e	n/e	n/e
Miscellaneous	2,293	939	1,361	n/e	n/e	n/e	n/e	n/e	n/e
Tobacco products	843	344	550	n/e	n/e	n/e	n/e	n/e	n/e

Note: Free Trade Assumptions.

a) Sales Value

Red meat prices up 1%. Dairy product prices decline 15%. Poultry meat prices decline by 28%. Fruit and vegetables decline by 12%. Flour and breakfast cereal decline by 10%, biscuit and baked goods by 5%. The quantity of goods sold remains the same as actually occurred in 1984.

b) Cost of Materials, Supplies, Fuel, and Energy (MSFE)

Red meat prices up 1%. Milk prices decline by 18%. Live poultry prices decline by 25%. Wheat declines by 30%, and fruit and vegetables by 10%. The quantity of materials, supplies, fuel, and energy remains the same as actually occurred in 1984.

The decline in cost of materials, supplies, fuel, and energy was determined by estimating the relative proportion of agricultural commodities and incorporating the expected decline in price.

n/a Not available. n/e No estimate. -- No significant change.

Source: Statistics Canada, Manufacturing Industries of Canada: National and Provincial Areas, Catalog 31-203, 1984.

VIII. SUMMARY AND CONCLUSIONS

Canada and the United States are engaged in trade negotiations with the declared aim of achieving a large and broad package of mutually-beneficial reductions in trade barriers and trade distorting measures. A negotiated agreement, subject to ratification by both countries, is expected to be completed by the fall of 1987. At the moment it is unclear how far down the road to free trade in agriculture, food and beverage products the Government of Canada plans to proceed.

This paper has set out to examine the potential impact of the bilateral trade negotiations concerning agriculture, food and beverage products within the context of the federal initiative, Ontario's approach, provincial trade objectives, farm and processing group views, government policy commitments, and the general competitiveness of the sector. It is hoped that this document will act as a focus for informed discussions within the Ontario Government, with the farm and agribusiness community and the general public. This consultative process will help in the further development of the Ministry's position regarding the bilateral trade negotiations.

This paper focused on the farm and processing levels as these industries will be most affected by any changes in trade policies. The farm input and supply industries were not a focus of attention because these industries already operate essentially on a North American basis. Trade barriers in fertilizers, chemicals and machinery are generally small. However, it must be acknowledged that there are different regulatory standards that could be harmonized through negotiations.

The Government of Canada has declared that securing and enhancing access to the U.S. market is vital to the efficient development of the Canadian economy and the continuing prosperity of Canadians. The decision to seek a comprehensive trade agreement was made because of growing concern about the protectionist mood in the U.S. and the need to improve the competitiveness of Canada's economy, particularly the manufacturing sector. In regards to agriculture, the Government of Canada and the United States maintain that the bilateral trade negotiations offer the opportunity to address areas of mutual concern and thereby set an example for the new round of multilateral trade negotiations.

The Ontario Government has maintained that the agriculture, food and beverage sector represents a special case and needs to be treated accordingly. As a result, a cautious approach is being advocated to ensure that the benefits exceed the costs for the Ontario agriculture, food and beverage sector.

The response of Canadian farm groups and agribusinesses to the trade initiative has varied a great deal. The Canadian Federation of Agriculture, the main umbrella group for Canadian farm organizations, has adopted a supportive position, provided that the trade negotiations do not endanger the right to establish and maintain a distinctive and effective Canadian agricultural policy. The Ontario Federation of Agriculture and l'Union des Producteurs Agricoles du Quebec both support the CFA position. In contrast, the National Farmers Union maintains that agriculture should be excluded from the negotiations.

In Ontario, farm and processing groups have expressed a wide range of views. Beef cattle and hog producers, along with the meat packers, have supported the need to secure and improve access for live animals and red meats to the U.S. The milk, farm-cream, poultry, and egg marketing boards maintain that the supply-management schemes (which it is claimed have benefitted producers, processors, consumers and both levels of government) should not be endangered by the trade negotiations. Similarly, Ontario wheat growers and many fruit and vegetable groups, certain food processors, wineries and breweries do not support changes to the current domestic and trade policies of the federal and provincial governments. With the exception of a number of farm and agribusiness groups, primarily the red meat sector, there is only limited conditional support for a bilateral trade agreement with the U.S. in Ontario's agriculture, food and beverage sector.

A number of studies have been undertaken to identify policy issues and examine the impacts of bilateral free trade on the agriculture, food and beverage industries. A common theme in all the studies reviewed is that, from an agricultural and agribusiness perspective, the gains from free trade are small and speculative, compared to the ready predictable losses. Furthermore, there is agreement that the supply-managed dairy, poultry and egg industries, and the partially protected horticultural and grape/wine industries in Canada would face large dislocation costs. However, there is also general agreement that the national livestock industry would benefit through increased development

opportunities from secured access to the U.S. It should also be noted that some analysts have asserted that the benefits to consumers outweigh the costs to producers.

Governments in Canada and the U.S. have made significant commitments to their respective agriculture and food sectors. The extensive level of government involvement through expenditures, regulations, and trade measures means that the negotiation of a trade agreement will be a complex and difficult task. The fact that the U.S. provides substantial government assistance to its agricultural sector, albeit in a more selective manner, means Canada has significant negotiating leverage.

Ontario's agriculture and food sector has similar structural characteristics to its U.S. counterpart and has responded to changing market forces in a similar manner. In terms of competitiveness, a number of industries are at a significant disadvantage to their respective U.S. counterparts. In Ontario, smaller farm production and processing units, lower labour productivity, government policies, and institutional arrangements, have resulted in higher costs of production in a number of commodity sub-sectors, including poultry farmers/processors, dairy producers/processors and grape growers and wineries. At the same time, certain other industries are competitive within the North American market, for example, grain, oilseed, hog, cattle, and selected vegetable producers. This is illustrated by the fact that Ontario's agriculture and food exports to the U.S. have been growing at a faster rate than imports in recent years.

The impact of the Canada-U.S. trade initiative on Ontario's agriculture and food sector was examined in terms of two extreme cases: no trade agreement (status quo scenario) and a free trade agreement (free trade scenario). In both cases it was necessary to make assumptions to undertake the analysis.

It was argued that the status quo cannot be maintained. Market forces, the protectionist mood in the U.S., and new round of multilateral trade negotiations all have the potential to reshape the competitive environment facing Ontario's agriculture and food sector. As a result, the status quo should not be treated as the safe option as it holds no guarantees of security for Ontario's agriculture and food sector.

Under the free trade scenario, Ontario's agriculture, food and beverage sector would face significant adjustment pressures. The commodities found to be the most sensitive to competition from the U.S. were the supply-managed dairy, poultry and egg, farm and processing industries, and the partially protected fruit and vegetable industries. However, a number of sectors were found to benefit from free trade, notably, the pork industry and selected vegetable industries. It was also noted that a number of U.S. commodity sub-sectors, particularly sugar and dairy would be adversely affected by free trade.

An attempt was made to gauge the short-run impact of free trade on the whole of Ontario's agriculture and food sector from an industry perspective. This short-run impact was examined by making the assumptions that output and input prices changed to U.S. determined market levels, while no adjustments were made in the level of production. This approach allows the impact of free trade to be examined in terms of changes in farm cash receipts and net farm income at the farm level and in terms of sales, costs, and value added at the processing level.

Under these assumptions it was found that Ontario's farm cash receipts would have been \$4,711 million in 1985, down \$360 million or 7 percent from the actual farm cash receipts in 1985. The adjustment cost burden is illustrated by the fact that farm cash receipts would decline by: \$170 million for dairy farmers; \$127 million for poultry and egg growers; \$41 million by fruit and vegetable growers; and \$24 million by grain and oilseed producers. The decline in farm cash receipts, combined with the loss of direct government payments to farmers, would have caused realized net farm income to decline by 40 percent in 1985.

The short-term impact analysis on the processing sector indicated that dairy processors, poultry processors, wheat-using processors, fruit and vegetable processors, breweries and wineries would all feel significant adjustment pressures. On the basis of conditions in 1984, value added generated by Ontario's poultry processors, dairy processors, and fruit and vegetable processors would decline by 35, 22, and 9 percent, respectively. Breweries and wineries would also face substantial declines in value added, however, no estimates of the impact are available. It should also be mentioned that since 1984 wheat-based processors have been progressively disadvantaged in supplying the domestic market by Canada's two-price wheat policy, particularly in the last six months.

This paper focused on the potential impacts of a bilateral free trade agreement on Ontario's agriculture, food and beverage sector from an industry perspective. A large number of trade policy issues were mentioned in this paper. These issues included tariffs, non-tariff barriers, adjustment assistance, phase-in periods, contingency protection (e.g. countervail actions), dispute settlement process, interprovincial barriers to trade and national treatment (i.e. domestic policies and regulations are not used to discriminate against imported products). It is recognized that some of these issues cut across all sectors of the economy, not just the agriculture, food and beverage sector. The way in which these issues are dealt with by the trade negotiators will determine the shape and impact of any trade agreement. No attempt was made in the paper to develop a recommended package of agriculture, food and beverage trade concessions, nor an inventory of Ontario's requirements or demands. This work remains to be done.

In developing a negotiating position with the objective of securing and enhancing access to the U.S., two issues of particular importance are trade dispute resolution and adjustment assistance. The protectionist mood in the U.S. has meant that U.S. import relief measures now represent a potent threat to Canadian exports, including, agriculture, food and beverage products. The trade negotiations offer the opportunity to address concerns about escalating government subsidies, differences in health and quality regulations, misuse of contingency protection, and improving the trade dispute settlement process.

Adjustment assistance is needed to ameliorate the adverse impacts associated with the reduction of bilateral trade barriers. The analysis undertaken in this paper suggests that the provision of substantial adjustment assistance by the Government of Canada would be a requirement for even considering changes in the current trade environment for a number of agriculture, food and beverage industries. Adjustment assistance could take the form of providing incentives for restructuring the industry, direct compensation for losses in asset values, employment retraining assistance, and adequate phase-in periods to allow the adjustments to occur as smoothly as possible.

The potential adverse impacts of free trade to selected agricultural producers and food and beverage processors suggests that a careful and cautious approach be taken to bilateral trade negotiations. However, the fact that the trade negotiations offer selected opportunities, both in terms of securing and

enhancing exports to the U.S. and potentially securing desirable changes in domestic U.S. and Canadian policies, provides the justification for this Ministry to participate in the development of Ontario's trade negotiating position. Ontario's interest would be best served by ensuring that the agriculture, food and beverage sector be treated as a special case, in view of the importance of the sector and its distinct characteristics. This denotes that agricultural interests are not traded off for benefits in other industrial or service sectors. To this end, the Ministry is continuing to analyze and research the implications of freer trade.

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APPENDIX A

**CANADIAN AND U.S. TARIFF AND
NON-TARIFF BARRIERS TO TRADE**

COMMODITY BY COMMODITY

LIVESTOCK AND MEAT

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Live cattle	1.0¢/lb	. Live cattle	1.0¢/lb
. Live hogs	Free	. Live hogs	Free
. Beef and veal	2.0¢/lb	. Beef and veal	2.0¢/lb
. Pork	Free	. Pork	Free
. Canned beef, pork and ham	15%	. Canned beef	3.0%
		. Beef and veal (portion controlled)	4.0%
SELECTED NON-TARIFF BARRIERS			
. Meat Import Act can be implemented to limit imports of <u>beef and veal</u> .		. Meat Import Act can be used to regulate imports of <u>beef, veal, mutton and goat meat</u> .	
. Health and sanitary restrictions.		. Health and sanitary restrictions.	
. Income stabilization.		. Federal and state and drug and feed additive safety regulations.	

POULTRY AND EGGS

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Live poultry	2.0¢/lb	. Live poultry	2.0¢/lb
. Eviscerated poultry (min. 5¢/lb and max. 10¢/lb)	12.5%	. Eviscerated chickens	5.0¢/lb
. Poultry canned	15%	. Turkey, value at over 40¢/lb	12.5%
. Shell eggs	3.5¢/doz.	. Shell eggs	3.5¢/doz.
SELECTED NON-TARIFF BARRIERS			
. Supply management		. None?	
a) Import quotas (chicken 6.3% of output, turkey 2% of output, eggs 0.7% output).			

DAIRY

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Powdered milk	3.5¢/lb	. Powdered milk	1.5¢/lb to 6.2¢/lb
. Cheese	3.5¢/lb	. Cheddar cheese	12%
. Butter	12.0¢/lb	. Cheese	10%
		. Butter	5.6¢/lb
		. Fluid milk	2¢/gallon on first million gallons, 6.5¢/gallon thereafter

SELECTED NON-TARIFF BARRIERS

- . Imports of listed dairy products controlled under Export and Import Permits Act (product - butter, butterfat, cheese, dry buttermilk, dry casein, caseinates, dry skimmed milk, dry whole milk, dry whey, evaporated and condensed milk and animal feeds.
- . Cheese import quota set at 20 412 tonnes.
- . Dry buttermilk import quota of 2 million tonnes issued to New Zealand annually.
- . Margarine cannot be imported.
- . Provincial legislation prohibits imports of fluid milk.
- . Provincial fluid milk distribution areas.
- . Provincial legislation prohibiting sales of certain imitation dairy products.
- . U.S. import quotas for dairy products.
- . Cheese import quota 111 000 tonnes.
- . Canada's quota share:

Aged cheddar	835 tonnes
Swiss-type	70 tonnes
Other cheese	1141 tonnes
- . Import quota limit other dairy products (dry butter milk/whey, dried skim milk, evaporated milk and sweetened condensed milk).
- . Milk Marketing Orders limit interstate movement of fluid milk.

GRAINS AND OILSEEDS

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
Wheat	12¢/bushel	Wheat	21¢/bushel
Barley	5¢/bushel	Barley	7.5¢/bushel
Corn	5¢/bushel	Corn	5¢/bushel
Soybeans		Soybeans	
• raw	Free	• raw	Free
• oil, crude	7.5%	• oil	22.5%
• oil, other than crude	15%		
• meal	Free		
Canola/Rapeseed		Canola/Rapeseed	
• raw	Free	• raw	0.4¢/lb
• oil, crude	10%	• edible	7.5%
• oil, retired	17.5%	• meal	0.12¢/lb

SELECTED NON-TARIFF BARRIERS

- Import/export permits required from the Canadian Wheat Board for importation and export of wheat, oats, barley and their products.
- Canadian-produced grain has preferred access to Canadian storage facilities.
- Sanitary and health regulations.
- Margarine imports banned.
- Transport subsidies (Feed Freight Assistance and Western Grain Transportation Act).
- Import quotas for wheat, rye and flour can be implemented.
- U.S. export assistance (credit and payment-in-kind).

FRUIT, VEGETABLES, LIVE PLANTS AND FLOWERS

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Table potatoes	35.0¢/cwt.	. Table potatoes	35.0¢/cwt
. Processed potatoes	10%	. Processed potatoes	10%
. Tomatoes, fresh	12.5¢/lb, but not less than 15%, up to 32 weeks per year, otherwise free	. Tomatoes, fresh	1.5¢/lb
. Tomatoes, processing	1.0¢/lb, but not less than 15.0%		
. Tomatoes, canned	13.6%	. Tomatoes, canned	13.6%
. Mushrooms, fresh	4.5¢/lb, but not less than 10%	. Mushrooms, fresh	5.0¢/lb plus 25%
. Corn, frozen or canned	12%	. Corn, frozen or canned	12%
. Apples	Free	. Apples	Free
. Peaches	3.0¢/lb, but not less than 12.5%, up to 14 weeks per year, otherwise free	. Peaches, summer	0.2¢/lb
. Strawberries	3.0¢/lb, but not less than 10.0%, up to 8 weeks per year, otherwise free	. Strawberries, summer	0.2¢/lb
. Hydrogenous and other potted plants	10.0%	. Live plants	3.0%
. Flowers and foliage	12.5%	. Miniature carnations	4.0%
		. Other cut flowers	8.0%

FRUIT, VEGETABLES, LIVE PLANTS AND FLOWERS

CANADA	UNITED STATES
SELECTED NON-TARIFF BARRIERS	
• Fast-track surtax system - measure against low priced imports of certain products. • Sale of products (that compete with Canadian products) on a firm price basis. • Restriction on bulk container use (e.g. apples). • Marketing board price-setting powers. • Federal and provincial inspection standards. • Provincial liquor board wine pricing practices. • Wine making regulations.	• Marketing Orders for fruit and vegetables that regulate grade, quality, etc. Imports are prohibited unless they meet comparable domestic requirements. • Chemical use regulations (i.e. phytosanitary and pesticide residue controls).

TOBACCO

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Tobacco, unstemmed	12.75¢/lb	. Tobacco, unstemmed	12.75¢/lb
. Tobacco, stemmed	20.0¢/lb	. Tobacco, stemmed	20.0¢/lb
. Cigarettes	20.0%	. Cigarettes	\$1.06/lb and 5%

SELECTED NON-TARIFF BARRIERS

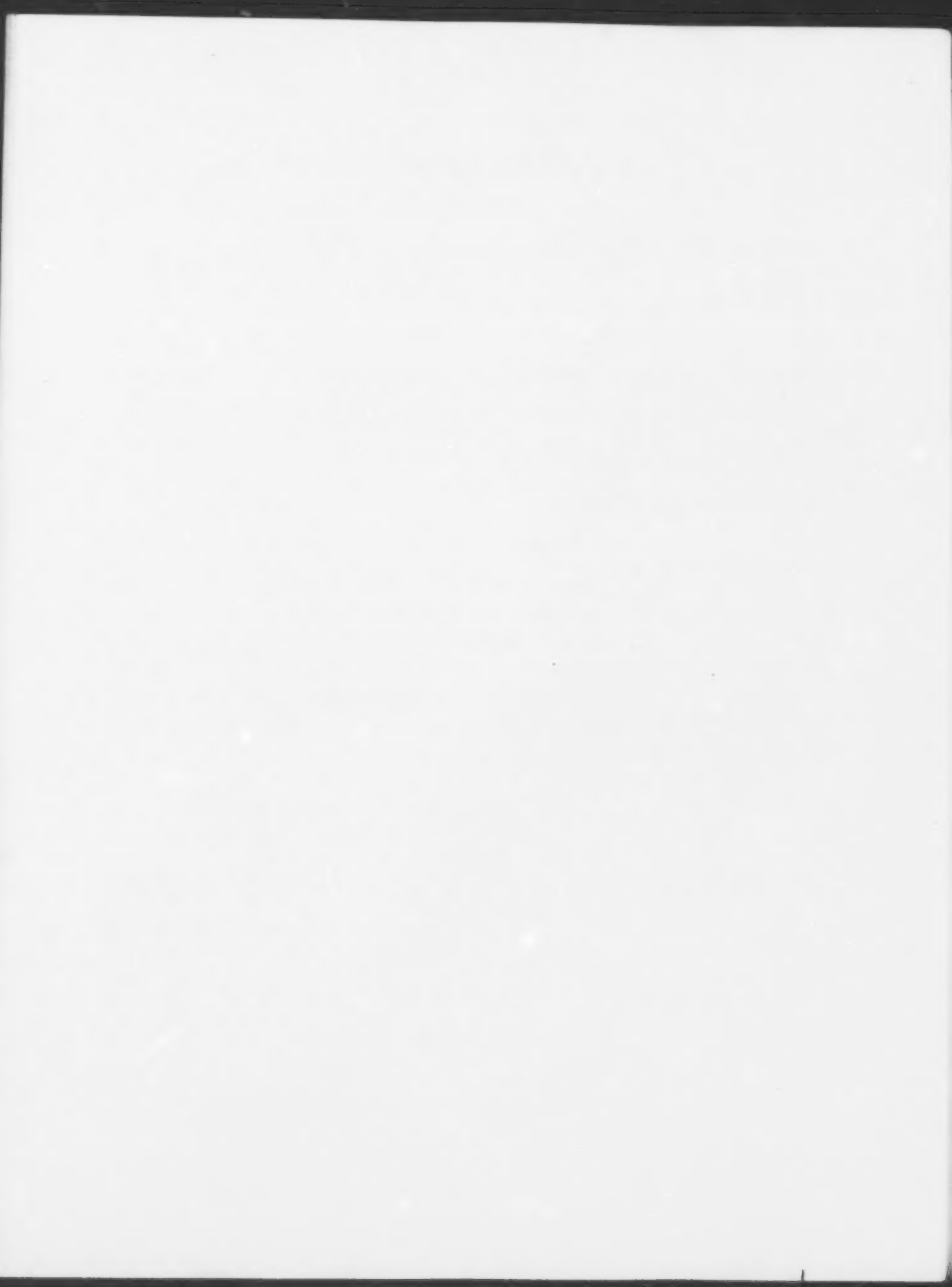
- | | | |
|---|--------------|---------------------------------|
| . Marketing boards and national agency. | and proposed | . U.S. tobacco support program. |
|---|--------------|---------------------------------|

SUGAR

CANADA	(Cdn. \$)	UNITED STATES	(U.S. \$)
SELECTED TARIFF BARRIERS (as of January 1, 1987)			
. Sugar beets	27.5%	. Sugar beets	80.0¢/ton
		. Unrefined sugar	2.79¢/lb

SELECTED NON-TARIFF BARRIERS

- | | |
|---------|--|
| . None? | . Import quotas and levies on raw and refined sugar. |
| | . Import quotas on sugar products. |
| | . U.S. duty drawback system for refined sugar exports. |



APPENDIX B

**FARM PRICES IN CANADIAN FUNDS
FOR SELECTED AGRICULTURAL COMMODITIES
ONTARIO, MICHIGAN, NEW YORK, AND U.S.
1981-1985**

**Exchange Rates Used to Convert U.S.
Dollars to Canadian Dollars**

1981 \$1 Canadian equals \$0.83 U.S.

1982 \$1 Canadian equals \$0.81 U.S.

1983 \$1 Canadian equals \$0.81 U.S.

1984 \$1 Canadian equals \$0.77 U.S.

1985 \$1 Canadian equals \$0.72 U.S.

Year	ONT	MICH	N.Y.	U.S.	Year	ONT	MICH	N.Y.	U.S.
FLUID MILK (b,f)*					INDUSTRIAL MILK (b,e)				
- \$/hL -					- \$/hL -				
1981	41.90	38.56	41.53	40.00	1981	31.42	31.84	37.55	34.61
1982	44.51	39.42	42.89	40.96	1982	34.88	32.47	38.35	35.27
1983	46.48	39.53	43.00	41.10	1983	36.96	32.17	38.33	35.28
1984	49.48	40.70	44.31	42.35	1984	39.03	33.79	39.67	36.70
1985	52.50	41.22	45.05	43.01	1985	40.22	34.99	39.64	36.29
5 yr avg	46.97	39.88	43.36	41.48	5 yr avg	36.50	33.05	38.71	35.63
% of ONT	100.00	84.91	92.30	88.31	% of ONT	100.00	90.55	106.04	97.62
STEERS AND HEIFERS (c,e)					HOGS (c,e)				
- \$/cwt. -					- \$/cwt. -				
1981	71.72	67.71	61.09	75.18	1981	70.01	65.71	66.29	65.71
1982	75.03	68.89	60.62	75.92	1982	83.32	81.08	80.32	80.63
1983	74.53	67.04	58.15	74.20	1983	70.75	73.46	71.34	72.55
1984	80.72	73.38	58.83	80.91	1984	72.65	76.68	75.73	76.36
1985	77.77	72.36	60.14	80.14	1985	68.51	75.60	73.59	74.93
5 yr avg	75.95	69.88	59.77	77.27	5 yr avg	73.05	74.51	73.46	74.04
% of ONT	100.00	92.00	0.79	101.74	% of ONT	100.00	102.00	100.56	101.35
BROILERS (d,e)					TURKEYS (d,e)				
- ¢/kg -					- ¢/kg -				
1981	110.01	84.57	77.96	75.32	1981	141.31	108.35	97.78	100.95
1982	107.20	73.40	76.12	73.13	1982	143.90	111.47	106.03	107.39
1983	107.80	81.51	78.79	77.71	1983	135.80	114.11	105.96	103.25
1984	118.10	94.18	99.88	96.17	1984	149.90	151.25	136.98	139.55
1985	108.60	93.22	94.73	90.82	1985	143.60	156.37	138.33	147.65
5 yr avg	110.34	85.38	85.50	82.63	5 yr avg	142.90	128.31	117.02	119.76
% of ONT	100.00	77.37	77.48	74.89	% of ONT	100.00	89.79	81.89	83.80

Year	ONT	MICH	N.Y.	U.S.	Year	ONT	MICH	N.Y.	U.S.
EGGS (d,e)					FLUE CURED TOBACCO (a,e)				
- ¢/doz -					- \$/lb -				
1981	96.90	n/a	n/a	n/a	1981	151.90	n/a	n/a	199.47
1982	93.30	61.66	67.33	67.58	1982	161.80	n/a	n/a	220.25
1983	97.10	63.47	69.88	68.65	1983	163.40	n/a	n/a	219.25
1984	103.90	76.38	90.61	86.21	1984	169.90	n/a	n/a	234.17
1985	99.30	55.93	75.02	68.20	1985	170.70	n/a	n/a	234.48
5 yr avg	98.10	64.36	75.71	72.66	5 yr avg	129.40	-	-	174.63
% of ONT	100.00	65.60	77.18	74.07	% of ONT	100.00	-	-	134.95
GRAIN CORN (a,e)					SOYBEANS (a,e)				
- \$/bu -					- \$/bu -				
1981	2.92	2.87	3.21	3.01	1981	7.19	7.22	n/a	7.24
1982	2.84	3.14	3.70	3.30	1982	6.80	6.73	n/a	7.02
1983	4.03	3.94	4.44	4.01	1983	9.33	9.61	n/a	9.63
1984	3.41	3.31	3.69	3.46	1984	7.55	7.42	n/a	7.48
1985	2.91	3.14	3.61	3.30	1985	6.75	6.82	n/a	6.96
5 yr avg	3.22	3.28	3.73	3.42	5 yr avg	7.52	7.56	-	7.66
% of ONT	100.00	101.83	115.79	106.00	% of ONT	100.00	100.48	-	101.87
BARLEY (a,e)					WINTER WHEAT (a,e)				
- \$/bu -					- \$/bu -				
1981	2.65	3.57	n/a	2.94	1981	4.27	4.16	3.85	4.38
1982	2.34	2.95	n/a	2.75	1982	4.48	4.11	4.11	4.32
1983	3.05	3.51	n/a	3.16	1983	3.99	4.19	4.07	4.30
1984	2.97	3.24	n/a	2.93	1984	4.20	4.12	4.21	4.31
1985	2.32	2.80	n/a	2.73	1985	3.40	3.96	3.96	4.23
5 yr avg	2.67	3.21	-	2.90	5 yr avg	4.07	4.11	4.04	4.31
% of ONT	100.00	120.52	-	108.75	% of ONT	100.00	100.93	99.24	105.86

Year	ONT	MICH	N.Y.	U.S.	Year	ONT	MICH	N.Y.	U.S.
FRESH TOMATOES (a,h)					PROCESSING TOMATOES (a,h)				
- \$/cwt. -					- \$/cwt. -				
1981	18.20	29.37	32.85	25.65	1981	5.00	4.80	n/a	4.05
1982	17.60	24.17	34.41	27.75	1982	5.30	5.71	n/a	4.41
1983	20.10	34.63	28.10	29.70	1983	5.10	5.18	n/a	4.21
1984	22.40	37.28	36.50	33.14	1984	5.60	5.44	n/a	4.36
1985	19.20	23.46	37.10	33.01	1985	5.60	5.46	n/a	4.52
5 yr avg	19.50	29.78	33.79	29.85	5 yr avg	5.32	5.31	-	4.31
% of ONT	100.00	152.73	173.29	153.08	% of ONT	100.00	99.90	-	81.03
FRESH GRAPES (a,g)					PROCESSING GRAPES (a,g)				
- \$/cwt. -					- \$/cwt. -				
1981	412.00	659.31	573.00	635.34	1981	334.00	291.30	291.30	317.67
1982	440.00	561.10	494.51	561.10	1982	372.00	236.77	267.60	247.87
1983	468.00	492.98	448.61	537.34	1983	412.00	231.70	240.33	203.35
1984	460.00	608.41	525.57	481.55	1984	374.00	200.65	225.24	209.71
1985	538.00	641.11	578.37	398.31	1985	376.00	211.43	189.61	215.52
5 yr avg	463.60	592.58	524.01	522.73	5 yr avg	373.60	234.37	242.81	238.83
% of ONT	100.00	127.82	113.03	112.75	% of ONT	100.00	62.73	64.99	63.93
APPLES (a,e)					PEACHES (a,g)				
- \$/cwt. -					- \$/cwt. -				
1981	22.30	15.58	25.17	18.46	1981	29.30	24.21	28.77	19.90
1982	13.90	11.96	17.88	16.28	1982	31.90	26.88	33.91	25.40
1983	15.50	13.56	20.83	18.36	1983	24.00	26.50	29.21	24.16
1984	11.70	15.02	26.02	20.06	1984	28.80	22.14	35.47	20.84
1985	11.00	14.87	15.69	23.33	1985	25.40	28.51	31.78	28.24
5 yr avg	12.68	11.22	17.98	14.63	5 yr avg	22.80	19.95	25.47	18.06
% of ONT	100.00	88.52	141.80	115.41	% of ONT	100.00	87.48	111.72	79.21

					ONT	MICH	N.Y.	U.S.	
SWEET CORN (a,h)					PROCESSING SWEET CORN (a,h)				
- \$/cwt. -					- \$/ton -				
1981	17.78	11.80	12.95	13.91	1981	69.85	n/a	74.44	75.64
1982	16.72	10.86	13.94	15.05	1982	74.39	n/a	79.91	75.72
1983	20.07	13.68	13.93	15.41	1983	76.20	n/a	81.46	73.70
1984	17.57	13.98	15.28	16.96	1984	71.67	n/a	80.78	82.46
1985	20.50	16.91	14.05	17.32	1985	72.00	n/a	86.89	86.48
5 yr avg	14.43	10.06	11.22	12.26	5 yr avg	58.42	-	63.32	61.50
% of ONT	100.00	69.76	77.75	85.00	% of ONT	100.00	-	108.38	105.27
PROCESSING CUCUMBERS (a,h)					PROCESSING PEAS (a,h)				
- \$/ton -					- \$/ton -				
1981	168.00	n/a	n/a	n/a	1981	298.00	n/a	340.45	261.33
1982	204.00	n/a	n/a	n/a	1982	316.00	n/a	352.69	279.94
1983	192.00	n/a	n/a	n/a	1983	300.00	n/a	351.24	267.44
1984	210.00	190.29	n/a	217.48	1984	324.00	n/a	389.64	306.80
1985	208.00	215.52	n/a	242.80	1985	340.00	n/a	416.04	327.38
5 yr avg	154.80	-	-	-	5 yr avg	247.60	-	286.81	223.10
% of ONT	100.00	-	-	-	% of ONT	100.00	-	115.83	90.10
ONIONS (a,h)					POTATOES (a,e)				
- \$/cwt. -					- \$/cwt. -				
1981	7.80	12.83	17.62	14.03	1981	6.20	7.55	7.37	7.19
1982	4.40	7.53	10.15	8.36	1982	4.40	5.73	6.04	5.49
1983	11.00	17.62	23.91	19.35	1983	7.80	8.13	9.12	7.17
1984	4.40	8.80	13.85	12.93	1984	6.80	7.38	8.03	7.37
1985	4.00	9.49	15.41	10.24	1985	5.30	6.00	5.25	5.35
5 yr avg	5.52	9.36	13.11	10.93	5 yr avg	6.10	8.70	8.95	8.14
% of ONT	100.00	169.52	237.43	198.07	% of ONT	100.00	142.63	146.77	133.47

* U.S. Fluid Milk prices are for marketing orders in Southern Michigan, N.Y. and N.J., and for all U.S. markets, respectively.

Sources: a. Ontario Ministry of Agriculture and Food, Agricultural Statistics for Ontario, Publication 20 (Annual).
b. Ontario Ministry of Agriculture and Food, Dairy Report (Annual).
c. Agriculture Canada, Meat and Livestock Review (Annual).
d. Agriculture Canada, Poultry and Market Review (Annual).
e. United States Department of Agriculture, Agricultural Prices (Annual).
f. United States Department of Agriculture, Federal Milk Order Market

APPENDIX C

**CANADA/ONTARIO AGRICULTURAL TRADE
WITH THE U.S., 1980-1985**

CANADA AGRICULTURAL EXPORTS TO THE UNITED STATES, 1980 TO 1985

	1980	1981	1982	1983	1984	1985
- \$'000 -						
Live Animals	202,683	166,205	264,320	271,056	439,977	394,258
Live dairy cattle	28,474	30,052	28,847	39,847	39,144	29,879
Live beef cattle	136,123	108,753	177,640	154,803	201,070	197,747
Hogs	28,816	21,872	52,299	69,719	201,637	160,061
Other live animals	9,270	5,528	5,534	7,390	7,391	7,527
Meats	277,772	323,989	457,821	428,262	539,713	629,899
Beef and Veal, fresh or frozen ...	109,855	126,140	139,016	137,780	177,851	201,406
Pork, fresh or frozen	136,256	156,370	269,128	232,467	305,963	363,952
Other fresh and processed meat ..	31,661	41,470	49,677	58,015	55,899	64,541
Grain and Grain Products	142,511	153,986	202,172	201,569	221,970	273,216
Barley	27,797	26,675	44,636	23,501	23,731	19,100
Corn, shelled	3,706	6,473	6,331	8,617	12,677	14,942
White winter wheat	47	18	1,351	2,604	43	3,915
Red spring wheat nes exc. seed ..	2	7	40	37	14,136	51,284
Bakery products	54,564	57,685	69,515	80,440	92,758	113,488
Macaroni	13,771	15,726	14,127	13,841	13,667	14,599
Other grains and grain products ..	42,624	47,402	66,172	72,529	64,958	55,888
Vegetables and Potatoes	58,201	88,567	101,944	117,288	132,908	144,187
Carrots, fresh	11,670	10,025	10,310	17,312	18,969	18,794
Turnips, fresh	6,753	8,576	8,310	8,384	9,654	7,741
Potatoes, fresh	15,948	38,147	38,245	29,629	35,692	38,908
Other fresh vegetables	8,031	10,743	11,494	17,026	24,500	21,464
Processed vegetables	15,799	21,076	33,585	44,937	45,093	57,280
Beverages	397,842	449,599	471,708	492,603	541,203	522,539
Whisky	300,085	333,185	324,743	331,038	349,022	338,048
Beer	89,306	106,437	131,335	140,804	158,727	163,718
Other beverages	8,451	9,977	15,630	20,761	33,761	20,781
Oilseeds and Oilseed Products	36,441	91,902	57,754	84,786	94,343	113,169
Flaxseed	9,786	45,237	18,166	31,443	28,099	42,431
Mustard seed	9,663	13,424	14,061	13,375	15,780	19,130
Sunflower seed	5,216	10,436	8,585	10,975	8,345	7,418
Rapeseed oil cake and meal	3,115	8,819	4,495	14,547	22,142	18,910
Rapeseed oil	2,252	2,935	3,047	3,880	5,054	14,183
Other oilseeds and oilseed products	6,409	11,051	9,400	10,566	15,923	11,097
Poultry and Eggs	12,021	12,060	11,612	18,113	25,527	30,814
Dairy Products	7,163	8,880	10,732	12,034	13,893	14,673
Other Animal Products	93,161	90,908	83,819	85,304	108,951	119,369
Hides, raw	31,936	34,216	20,755	24,934	32,934	37,667
Fur skins, raw	35,724	3,594	32,569	29,602	27,180	33,990
Other animal products	25,501	23,098	30,495	30,768	48,837	47,712
Animal Feeds	68,243	77,376	80,572	99,028	117,856	100,329
Fruit and Nuts	40,938	46,766	65,044	65,411	68,657	77,297
Sugar and Related Products	14,518	17,390	45,750	82,046	120,232	125,418
Confectionery	33,797	28,204	27,171	30,308	44,037	45,770
Nursery Stocks	13,269	17,835	22,503	29,242	39,224	48,562
Tobacco	17,560	25,816	40,545	34,096	35,347	41,060
Seeds for sowing	17,177	18,223	19,570	39,541	18,712	19,284
Vegetable fibers	7,594	11,924	18,791	20,372	16,376	22,929
Plantation crops	5,199	11,181	21,458	19,145	52,510	60,751
Spices	1,720	1,988	2,800	3,339	3,276	3,585
Other Agricultural Products	90,131	93,558	99,574	115,159	162,337	187,028
TOTAL	1,537,941	1,736,357	2,105,660	2,248,702	2,797,049	2,974,137

Source: Statistics Canada, External Trade Division.

CANADA AGRICULTURAL IMPORTS FROM THE UNITED STATES, 1980 TO 1985

	1980	1981	1982	1983	1984	1985
	- \$'000 -					
Live Animals	84,586	165,824	96,415	91,802	55,101	71,397
Live dairy cattle	2,009	2,107	1,628	2,223	1,702	825
Live beef cattle	57,408	132,504	69,122	71,577	34,605	49,742
Hogs	279	302	265	260	131	211
Other live animals	24,890	30,911	25,400	17,742	18,663	20,169
Meats	86,513	119,077	112,791	123,903	160,121	155,113
Beef and veal fresh or frozen ...	34,240	52,847	47,776	56,272	109,237	107,974
Pork, fresh or frozen	30,272	38,732	36,637	36,490	19,882	12,969
Other fresh and processed meats ..	22,001	27,498	28,378	31,141	31,022	34,170
Other Animal Products	201,315	209,793	184,248	205,549	229,470	232,592
Hides, raw	51,204	44,999	38,507	54,363	57,280	43,192
Fur skins, raw	104,669	113,712	98,450	99,393	105,741	130,130
Sausage, casings	11,102	9,936	12,742	14,491	15,855	11,855
Other animal products	34,340	41,146	34,549	37,302	50,594	47,413
Grain and Grain Products	298,757	339,192	250,464	219,325	305,207	264,545
Corn Shelled	169,357	194,588	103,325	56,723	89,323	83,689
Rice	49,182	56,687	55,535	54,120	59,799	51,516
Bakery products	23,514	28,949	32,040	35,504	40,448	41,562
Corn meal, flour and starch	16,351	18,083	16,048	17,905	26,185	17,732
Breakfast cereal & cereal grain products	18,062	20,329	29,392	41,216	67,522	45,784
Other grains and grain products ..	22,231	20,556	14,124	13,857	21,930	24,262
Vegetables and Potatoes	382,896	493,668	494,937	518,608	581,334	575,810
Celery, fresh	25,398	30,062	30,375	35,767	39,305	32,204
Lettuce, fresh	56,739	67,697	83,056	83,503	75,182	85,471
Potato, table, fresh (incl. seed) ..	24,694	45,192	32,349	30,214	47,717	37,980
Tomatoes, fresh	62,711	70,138	74,473	82,726	85,836	89,464
Onions, fresh (incl. shallots) ..	20,945	34,772	23,325	25,412	32,661	27,598
Other vegetables, fresh	133,545	168,621	177,665	188,637	218,390	222,085
Processed vegetables	58,864	77,186	73,694	72,349	82,243	81,008
Fruit and Nuts	648,091	735,242	773,602	741,812	842,460	811,438
Apples and crab apples, fresh ...	33,954	43,700	52,398	28,309	37,694	33,168
Grapes, fresh	89,689	95,791	108,571	112,457	120,546	114,274
Citrus fruits, fresh	125,360	137,279	157,427	147,363	167,930	179,629
Peaches, fresh	12,421	16,062	15,948	15,160	17,042	15,003
Plums, fresh	17,721	20,256	20,484	21,692	21,837	26,073
Other fruits and berries fresh ..	88,013	110,009	123,593	135,097	150,837	153,423
Fruit juices and concentrates ...	119,543	125,964	123,487	127,335	150,837	153,423
Other fruit processed	96,575	114,072	101,281	84,942	149,165	136,248
Nuts	64,815	72,109	70,413	69,457	86,686	74,133
Oilseeds and Oilseed Products	395,638	374,179	384,204	387,372	470,129	385,638
Soybeans	141,882	114,977	128,066	95,827	98,520	58,763
Peanuts, green	43,820	41,017	57,944	57,237	62,342	60,109
Soybean oilcake and meal	112,941	119,511	107,789	126,391	164,243	143,526
Cooking oils	29,951	22,187	30,274	23,225	40,813	30,739
Other oilseeds & oilseed products	67,044	76,487	70,131	84,692	104,211	92,501
Beverages	41,747	39,864	36,076	35,618	32,983	64,013
Poultry and Eggs	55,639	69,442	73,329	76,677	108,157	103,570
Dairy Products	10,458	10,308	10,933	10,539	13,678	15,573
Animal Feeds	56,762	61,647	75,598	72,695	76,290	82,069
Seeds for sowing	52,196	56,943	45,947	48,100	51,718	54,848
Vegetable fibers	119,504	126,521	74,846	100,460	122,084	77,230
Plantation crops	223,919	175,186	164,769	166,245	200,073	199,558
Cocoa and cocoa products	35,563	35,753	36,632	36,235	61,444	58,263
Coffee and coffee products	166,293	122,714	111,266	112,568	116,712	116,072
Other plantation crops	22,063	16,719	16,871	17,442	21,917	25,223
Spices	6,327	7,513	10,913	10,930	12,809	13,919
Sugar and Products	47,102	45,969	22,580	29,782	39,961	49,406
Confectionery	32,212	49,429	54,967	54,042	61,269	71,006
Nursery Stocks	46,867	61,388	62,449	64,533	70,539	76,961
Tobacco	44,557	22,895	37,890	47,809	32,233	20,639
Other Agricultural Products	141,440	162,524	161,106	177,824	204,052	189,947
Infant and junior foods	4,920	5,127	9,168	12,307	5,175	5,952
Pre-cooked frozen dinners preparations	25,148	25,307	28,913	36,529	52,439	40,095
Food preparations nes	24,966	27,168	32,763	41,843	42,112	40,836
Other Agricultural Products	86,406	104,925	90,262	87,145	104,326	103,063
TOTAL	2,976,526	3,326,604	3,128,064	3,183,625	3,669,668	3,515,272

Source: Statistics Canada, External Trade Division.

ONTARIO AGRICULTURAL EXPORTS TO THE UNITED STATES, 1980 TO 1985

	1980	1981	1982	1983	1984	1985
- \$'000 -						
Live Animals	48,724	37,711	58,726	81,704	132,408	129,425
Live dairy cattle	15,967	15,076	17,379	21,529	14,311	15,371
Live beef cattle	24,974	16,311	25,910	36,391	30,925	32,099
Hogs	4,006	3,631	13,353	20,125	83,872	79,209
Other live animals	3,777	2,693	2,084	3,659	3,300	2,746
Meats	89,735	79,115	113,748	126,720	125,817	134,829
Beef and Veal, fresh or frozen ...	40,189	35,708	32,317	29,381	37,079	44,973
Pork, fresh or frozen	38,276	30,727	65,809	67,014	67,119	67,761
Other fresh and processed meat ..	11,270	12,680	15,622	29,825	21,619	22,095
Grain and Grain Products	77,454	86,675	96,507	103,664	114,770	140,055
Corn, shelled	3,706	6,473	6,331	8,617	12,677	14,942
White winter wheat	46	17	1,351	2,604	43	3,915
Bakery products	40,725	42,369	51,329	59,625	71,242	87,195
Macaroni	10,431	13,310	12,804	13,025	13,254	14,220
Other grains and grain products .	22,546	24,506	24,692	19,793	17,554	19,783
Vegetables and Potatoes	27,950	35,773	43,941	58,009	55,579	58,225
Carrots, fresh	5,886	4,857	5,361	9,468	10,801	10,501
Turnips, fresh	6,200	8,051	7,895	8,047	8,386	7,519
Other fresh vegetables	6,868	11,674	11,222	14,585	18,798	17,164
Processed vegetables	8,996	11,191	19,463	25,909	17,594	23,041
Beverages	259,481	290,369	285,820	302,951	338,303	338,946
Whisky	209,100	234,348	214,442	221,108	239,114	235,584
Beer	45,169	49,734	61,786	68,411	83,652	90,742
Other beverages	5,212	6,287	9,592	13,432	15,537	12,620
Oilseeds and Oilseed Products	4,755	9,003	6,638	7,399	13,380	8,146
Soybeans	2,195	2,885	1,824	1,529	3,886	1,481
Other oilseeds and oilseed products	2,560	6,118	4,814	5,870	9,494	6,665
Poultry and Eggs	8,876	9,323	9,241	15,002	17,535	20,560
Dairy Products	2,203	3,119	2,888	4,408	6,709	6,420
Other Animal Products	22,875	32,503	38,473	40,150	46,093	43,896
Animal Feeds	31,365	28,491	27,943	36,166	41,537	35,118
Fruit and Nuts	9,566	10,176	10,207	11,577	17,290	17,441
Sugar and Related Products	4,920	5,344	23,116	52,975	85,480	94,766
Confectionery	18,000	17,055	18,864	23,518	34,633	35,106
Nursery Stocks	10,080	13,931	18,762	23,760	30,240	37,898
Tobacco	15,419	22,822	35,701	28,835	29,474	35,857
Seeds for sowing	1,512	2,122	2,639	3,323	1,666	1,680
Vegetable fibers	5,754	2,051	3,837	2,600	691	5,491
Plantation crops	631	1,125	1,416	3,741	14,112	26,688
Spices	758	892	1,121	1,147	2,413	2,815
Other Agricultural Products	19,735	22,285	19,912	33,654	58,483	80,281
TOTAL	659,793	709,885	819,500	961,303	1,166,613	1,253,643

Source: Statistics Canada, External Trade Division.

ONTARIO AGRICULTURAL IMPORTS FROM THE UNITED STATES, 1980 TO 1985

	1980	1981	1982	1983	1984	1985
	- \$'000 -					
Live Animals	59,429	137,115	77,573	78,906	39,755	55,558
Live dairy cattle	1,217	961	1,054	1,602	1,058	460
Live beef cattle	47,185	122,440	65,517	68,356	30,032	45,910
Hogs	82	121	58	54	44	14
Other live animals	10,945	13,593	10,944	8,894	8,621	9,174
Meats	50,909	70,097	72,003	82,688	101,923	102,591
Beef and veal fresh or frozen ...	20,990	31,689	33,231	41,682	72,574	75,065
Pork, fresh or frozen	18,764	27,776	29,385	28,932	17,502	11,568
Other fresh and processed meats .	11,155	10,632	9,387	12,074	11,847	15,958
Other Animal Products	90,972	99,009	103,448	122,797	145,802	122,118
Hides, raw	40,765	37,301	30,496	46,055	48,897	30,225
Fur skins, raw	16,113	22,761	38,011	39,889	45,863	48,860
Sausage, casings	9,125	8,064	10,542	12,186	13,622	10,264
Other animal products	24,969	30,883	24,399	24,567	37,420	32,769
Grain and Grain Products	147,052	157,045	108,200	107,929	162,134	132,871
Corn Shelled	76,181	73,558	24,275	15,744	34,740	28,546
Rice	30,927	36,594	34,733	32,111	35,879	33,329
Bakery products	12,254	14,005	15,437	16,938	20,760	21,614
Corn meal, flour and starch	7,217	7,849	7,561	8,146	14,861	8,383
Breakfast cereal & cereal grain products	10,737	12,265	17,790	25,096	43,176	28,735
Other grains and grain products .	9,736	12,774	8,404	9,894	12,718	12,264
Vegetables and Potatoes	144,733	196,752	199,840	220,599	245,946	251,066
Celery, fresh	8,538	10,693	10,784	12,691	15,203	12,367
Lettuce, fresh	23,187	28,481	37,364	36,772	33,526	39,213
Potato, table, fresh (incl. seed) .	7,037	14,173	8,416	11,349	16,347	11,691
Tomatoes, fresh	22,789	26,298	29,833	34,440	33,927	37,966
Onions, fresh (incl. shallots) ..	7,176	13,026	7,710	10,124	12,560	12,022
Other vegetables, fresh	48,778	63,861	66,162	73,694	84,808	89,554
Processed vegetables	27,228	40,220	39,571	41,529	49,575	48,253
Fruit and Nuts	292,701	339,291	358,747	360,013	415,278	416,104
Apples and crab apples, fresh ...	10,339	18,701	17,560	9,745	16,065	12,943
Grapes, fresh	46,433	53,451	62,420	65,247	67,228	66,421
Citrus fruits, fresh	49,860	55,748	62,918	62,898	68,707	78,511
Peaches, fresh	5,221	7,397	7,119	7,488	7,979	7,545
Plums, fresh	8,166	10,113	10,749	12,299	12,102	15,829
Other fruits and berries fresh ..	39,004	51,729	54,474	63,388	73,790	77,834
Fruit juices and concentrates ...	44,252	48,644	50,794	57,309	72,500	74,538
Other fruit processed	42,681	46,533	45,370	36,141	36,775	48,471
Nuts	46,745	46,975	47,343	45,498	60,132	34,012
Oilseeds and Oilseed Products	269,862	251,765	248,921	242,767	279,582	221,979
Soybeans	140,311	114,433	127,887	95,652	97,810	58,557
Peanuts, green	20,687	17,347	24,817	27,315	26,068	30,923
Soybean oilcake and meal	39,083	45,935	29,179	39,838	54,027	47,031
Cooking oils	18,061	13,863	13,503	15,140	24,961	18,117
Other oilseeds & oilseed products	51,720	60,187	53,535	64,822	76,716	67,351
Beverages	5,809	6,857	5,312	6,451	7,491	13,533
Poultry and Eggs	37,181	44,871	47,879	49,570	73,974	68,307
Dairy Products	5,999	4,891	5,699	6,618	9,101	10,068
Animal Feeds	23,404	26,102	29,336	28,882	34,607	37,234
Seeds for sowing	31,964	38,396	26,991	30,338	31,143	32,454
Vegetable fibers	32,731	30,166	20,736	26,116	51,350	47,051
Plantation crops	97,455	72,381	78,137	84,036	109,109	100,185
Cocoa and cocoa products	24,035	24,325	26,074	28,106	41,686	39,308
Coffee and coffee products	59,497	39,993	42,487	45,367	52,698	44,369
Other plantation crops	13,923	8,063	9,576	10,563	14,725	16,508
Spices	3,019	3,851	5,599	5,948	6,489	7,737
Sugar and Products	31,230	28,999	14,964	18,299	24,951	30,129
Confectionery	16,625	27,595	31,051	29,495	37,239	46,472
Nursery Stocks	23,308	29,311	31,079	32,640	37,266	40,917
Tobacco	33,764	6,666	14,351	23,479	12,101	8,123
Other Agricultural Products	78,029	95,090	95,329	108,537	130,987	121,209
Infant and junior foods	4,035	4,075	7,131	10,849	3,839	4,488
Pre-cooked frozen dinners preparations	11,359	15,152	16,405	20,922	36,176	24,607
Food preparations nes	14,182	14,746	18,863	24,653	25,100	26,801
Other Agricultural Products	48,453	61,117	52,930	52,113	65,872	65,313
TOTAL	1,476,176	1,666,250	1,575,195	1,666,108	1,956,228	1,865,706

Source: Statistics Canada, External Trade Division.